policy REVIEW

Winter 1992 Number 59 $4.50

An Open Letter to Boris Yeltsin
Jack Kemp

The $600-Billion Tax Ripoff
James L. Payne

Latter-day Lessons for Welfare
Tucker Carlson

Cuba, The Next Domino
Georgie Anne Geyer

Return of the "R" Word
Murray Weidenbaum

Conscience of a Cultural Conservative
Paul M. Weyrich

The Cold War's Magnificent Seven
Salutes to Churchill, Truman, Adenauer, Meany, Chambers, John Paul II, and Reagan

24
0 74470 65831 3

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

RECENT HERITAGE FOUNDATION PUBLICATIONS

New Releases

Congressional Directory 102nd Congress
(Book, 1991, $10.95)

Term Limitation: Bringing Change, Competition, Control, and Challengers to Congress
James K. Coyne
(HL#331, 1991, $3.00)

Domestic Policy Studies

A National Health System for America
Edited by Stuart M. Butler and Edmund F. Haislmaier
(Critical Issues, 1989, $8.00)

From the Kemp Commission: Sound Advice for Removing Barriers to Affordable Housing
Carl F. Horowitz
(B#848, 1991, $3.00)

Foreign Policy Studies

On the Pearl Harbor Anniversary, Japan Still Says, "Don't Blame Me"
Seth Cropsey
(HL#353, 1991, $3.00)

Central Europe's Mass-Production Privatization
Stuart M. Butler
(HL#352, 1991, $3.00)

For the 1992 publications catalog and latest updates—or to order any of the above—write to:
The Heritage Foundation, Dept. PR59, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002-4999

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Winter 1992

policy REVIEW

Number 59

Editor
Adam Meyerson

Executive Editor
Thomas C. Atwood

Managing Editor
Elizabeth Schoenfeld

Assistant Editor
Tucker Carlson

Administrative Assistant
Jim Rutherford

Subscription Manager
Betsy King

Publisher
Edwin J. Feulner Jr.

Associate Publisher
Burton Yale Pines

Editorial Board
David I. Meiselman, Chairman
Sir Kingsley Amis
George F. Gilder
Stephen Haseler
Harold M. Hochman
Ernest W. Lefever
Shirley Robin Letwin
Henry G. Manne
Antonio Martino
Allan H. Meltzer
Robert Moss
John O'Sullivan
William Schneider Jr.
Gordon Tullock
Ernest van den Haag

Policy Review (ISSN 0146-5945) is published quarterly by The Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002-4999. Application to mail at the second-class postage rate is pending at Washington, D.C., and additional mailing offices.

Policy Review is a forum for conservative debate on the major political issues of our time. The views in *Policy Review* are those of the authors. They do not necessarily reflect the views of the editorial board or of The Heritage Foundation.

Correspondence should be sent to *Policy Review*, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002-4999. Telephone: (202) 546-4400. Send requests to reprint more than short quotations to the Executive Editor. Send address changes to *Policy Review*, Subscription Manager, at the above address. Subscription rates are $18 for one year, $34 for two years, $48 for three years. Add $8 a year for foreign air-speeded delivery.

Policy Review is indexed by the Readers' Guide to Periodical Literature, the Public Affairs Information Service, and the Social Sciences Index.

Policy Review has been copyrighted in 1992 by The Heritage Foundation and is available on NEXIS.

U.S.A. Newsstand Distribution by Eastern News Distributors, Inc., 1130 Cleveland Rd., Sandusky, Ohio 44870.

Jack Kemp 2 **Houses to the People!**
An Open Letter to Boris Yeltsin

An Interview by Adam Meyerson 8 **Conscience of a Cultural Conservative**
Paul M. Weyrich on the Politics of Character in Russia and America

James L. Payne 18 **Unhappy Returns**
The $600-Billion Tax Ripoff

Tucker Carlson 25 **Holy Dolers**
The Secular Lessons of Mormon Charity

David Brock 32 **Mr. Symms Goes to Jamba**
A Kind Word for Congress in Foreign Policy

Murray Weidenbaum 40 **Return of the "R" Word**
The Regulatory Assault on the Economy

Matthew Spalding, Frank Gregorsky, Richard V. Allen, Arnold Beichman, Ralph de Toledano, Fr. Robert A. Sirico, Adam Meyerson 44 **The Cold War's Magnificent Seven**
A Salute to Winston Churchill, Harry S. Truman, Konrad Adenauer, George Meany, Whittaker Chambers, Pope John Paul II, Ronald Reagan

Reuben M. Greenberg 56 **Less Bang-Bang for the Buck**
The Market Approach to Crime Control

Robert H. Michel, Dick Armey, and William F. Goodling 62 **House Repairs**
What We'll Do When We Reach Majority

Georgie Anne Geyer 66 **Yesterday's Cigar**
Fidel Castro, The Last Caudillo

Gregory Fossedal 71 **The Lehrman-Mueller Hypothesis**
A New Theory of Deficits, Stagflation, and Monetary Disorder

William Rosenau and Linda Head Flanagan 82 **Blood of the Condor**
The Genocidal Talons of Peru's Shining Path

Donald F. Swanson and Andrew P. Trout 86 **Alexander Hamilton's Invisible Hand**
He Kept Government Away from Industry

Letters 88 Israeli economic reforms, hunger in America, Japanese intentions, the American interest

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Houses to the People!

An Open Letter to Boris Yeltsin

Jack Kemp

Dear President Yeltsin:

When "reactionary forces" in our Congress recently voted to slash our president's radical perestroika plan to privatize public housing and allow low-income residents to become empowered as homeowners and property owners, I couldn't help but notice the irony.

Today, Russia may be on the verge of the most exciting experiment in entrepreneurial capitalism since 1776. Your Russian Parliament, city councils, and mayors are chopping away at the status quo with enthusiasm and determination. Meanwhile the most entrenched, stultified, and intellectually corrupt legislative bureaucracy since the fall of the Supreme Soviet—the United States Congress—is resisting our efforts to launch a historic New War on Poverty.

Think of the irony, Boris. A decade ago, when Congressman Charlie Rangel of Harlem, Congressman Bob Garcia of the South Bronx, and I introduced the first urban Enterprise Zone bill, I often stood on the floor of the House of Representatives inveighing against the evils of totalitarianism in the Soviet Empire. Now, almost a dozen years and 69 Enterprise Zone bills later, the mayor of St. Petersburg, Anatoly Sobchak, looks like he's going to get Enterprise Zones before I can get them for cities in the United States!

So, before we try for bill number 70, perhaps you'll do a fellow "democratic revolutionary" the favor of letting him get his two kopeks in on Russian privatization, housing, and economic reform. As one who has already announced a radical redirection of the American socialist-style public housing and welfare system, I have a few ideas that might be of help to you and your radical colleagues.

The Russian Dream of Homeownership

Yelena Bonner, wife of the late Andrei Sakharov, offered an eloquent summary of the American dream when she visited the United States in 1986:

> [Americans] want a house and the ground it stands on, and a surrounding bit of land....The desire to own a house is not a class ambition; it encompasses upper, middle, upper-middle, or lower-income groups and is an expression of a national trait, a desire for privacy.

The American desire to own property is the Russian dream, too. It is universal. It is the basis of what President Bush has called the Pax Universalis. "People everywhere," he told the United Nations, "seek government of and by the people, and they want to enjoy their inalienable rights to freedom and property and person."

At the beginning of this century, Russia's brilliant prime minister Pyotr Stolypin sought to expand private property and open up millions of acres of land to enterprising peasants. Communism rejected this dream. Today, 75 percent of Soviet housing is entirely under government ownership and control. Land cannot be sold or leased.

Contrary to the rhetoric of Lenin's October Revolution, over the years the Soviet Union consistently underinvested in housing compared with the capitalist nations of the West. Housing represents just 18 percent of the total "reproducible" assets of the former Soviet Union versus 30 percent in the United States.

Many Soviets—including nearly 40 percent of St. Petersburg residents—live in communal apartments, where several families share living quarters, bathrooms, and kitchens. Fully 18 percent of Soviet families have been on a housing waiting list for 10 years or more. Soldiers coming back from Central and Eastern Europe often have no place to live.

Not only is there not enough housing. What housing there is suffers from substandard materials, poor construction, and poor design. The centrally planned housing construction industry duplicated these errors throughout the Soviet republics.

Improvement of housing was one of the former Communist regime's first promises and most signal defeats. To succeed where the Communists failed, you must rely on the unbounded potential of the free market. Mayor Gavril Popov of Moscow said he wants to give the homes away, "turning the people into real proprietors...just like that." He's right!

Jack Kemp *is secretary of Housing and Urban Development.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Take as your example the United States, which in the years since World War II has produced some 70 million new housing units, allowing 60 million families to become homeowners. Nearly all of this housing was produced by the private sector, while government-sponsored public housing yielded dismal, Soviet-style results.

But you cannot create a vibrant housing industry until you effect the basic reforms needed to erect a stable democratic capitalist system and galvanize a growing market economy. First things first.

Ludwig Erhard's Miracle

Seven decades of Communism have left Russia with an inefficient and irrational economy that cannot even provide the basic necessities of life. But other nations have suffered comparable catastrophes and risen from the ashes to rebuild their economies and accumulate previously unimagined wealth.

At the end of World War II, Germany lay in ruins. In the American zone, only 10 percent of some 12,000 factories were still producing goods. Nationally, 30 percent to 40 percent of German housing and industry was completely destroyed. Some cities lost nearly their entire housing stock. Millions of refugees and "displaced persons" were ill-fed, ill-housed, and unemployed. There were endless lines for rations of food and other essentials. Life savings and pensions could only be redeemed in worthless currency, and barter was a way of life.

People were losing hope. In the United States, there were worries that democracy itself would fail in West Germany if prosperity could not be restored.

Enter Ludwig Erhard. Erhard was the wily old professor who persuaded the military governor of the U.S. occupation zone, General Lucius Clay, to let Adam Smith have a crack at the German economy. With Smith as his guide, Erhard's first step was to restore the public's faith in the national currency by abolishing the worthless old reichsmark and replacing it, in one fell swoop, with the new deutschemark. The deutschemark looked like the dollar, was printed by the U.S. Mint, and enjoyed the immediate faith of the German public. It served as a plausible unit of account, the *sine qua non* of a workable price-setting system and a free market. As former Federal Reserve Board member and author Henry Wallich recalls, "The spirit of the country changed overnight."

Next, Erhard eliminated wage and price controls, ended rationing, and slashed tariffs to invite the bracing effects of foreign competition. When a U.S. Army officer asked Erhard where he found the temerity to relax rationing in the face of shortages, the professor offered the legendary reply: "But, Herr Oberst, I have not relaxed rationing; I have abolished it! Henceforth the only rationing ticket people will need will be the deutschemark. And they will work hard to get these deutschemarks, just wait and see."

Erhard also reduced the burden of what had been the highest income taxes in the West. Overtime pay was now nearly tax-free, effectively creating a top marginal tax rate of 0 percent, so people dramatically increased the number of hours they worked. Erhard said, "Germany has replaced the bureaucrat with the businessman."

During the first year after his radical supply-side reforms, West German gross national product doubled. After two years, aggregate GNP passed its 1938 peak. Total industrial production surged by a staggering 83 percent in 22 months. To relieve Germany's acute housing shortage, Erhard made all investments in new housing completely exempt from the income tax. Three years later, housing construction had doubled. Erhard understood that even a defeated, decimated Germany was rich in the most important source of the wealth of nations: human capital. As the historian of the Erhard reforms, Edwin Hartrich, writes: "Erhard had swept away all the barriers....The more time and energy the German citizen put into his labor, the greater were his rewards." The result was *Wirtschaftswunder*, an "economic miracle."

Such is the resonance of Erhard's name in Europe four decades later that when Tadeusz Mazowiecki became the first post-Communist prime minister of Poland

"To rebuild the Soviet economy without securing the value of the ruble is akin to constructing a house on quicksand."

he announced, "I am looking for my Ludwig Erhard." Unfortunately for a still-stagnating Poland, Mazowiecki found Harvard University's austerity program instead.

Surely the situation in Russia today is no worse than that of West Germany in 1948, when Erhard's reforms took effect. If anything, Russia's underlying potential for prosperity is far greater. Your abundant reserves of natural resources and your large, well-educated population represent a vast source of future wealth. Your challenge is to tap this reservoir of human initiative and creativity by shattering the barriers to work, investment, and entrepreneurship.

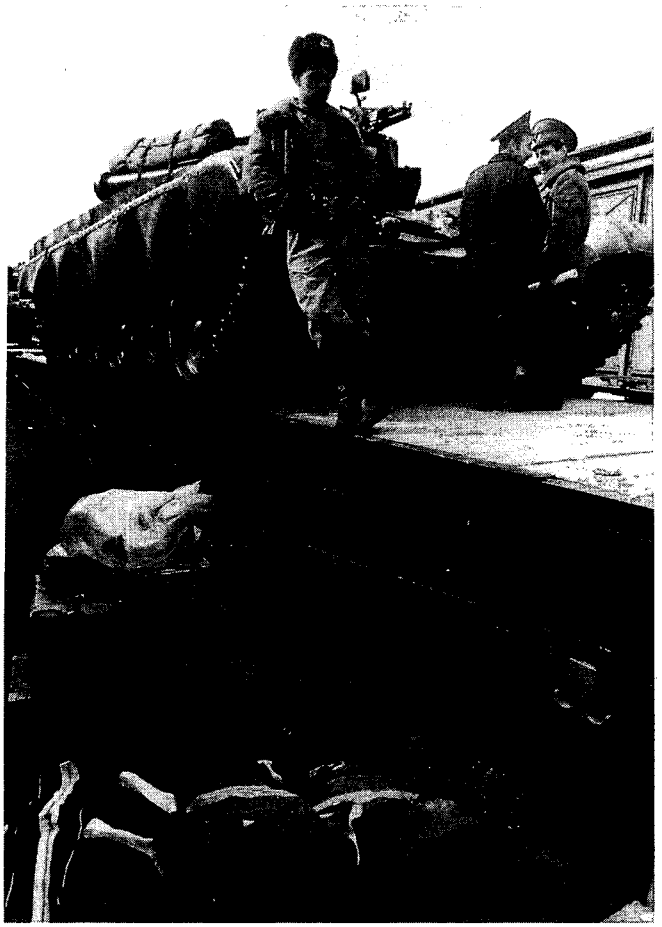
From Under the Ruble

Following Erhard's model, Russia needs to establish a reliable unit of account. As the Hoover Institution's Judy Shelton, author of the prescient 1989 book, *The Coming Soviet Crash*, writes, "Gorbachev's initial attempt to rebuild the Soviet economy without first securing the value of the ruble was akin to trying to construct a house on a foundation of quicksand."

Erhard, on the other hand, learned a lesson from America's first Treasury Secretary, Alexander Hamilton, who responded to hyperinflation in 1791 by replacing the nearly worthless "continental" with the dollar, which he made convertible into gold or silver. Hamilton put the full prestige of the new government behind the dollar, while at the same time promising to pay the Revolutionary War debts of the states.

Back in 1897, Russia's great finance minister Sergei

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Reuters/Bettmann

Soldiers coming back from Central and Eastern Europe often have no place to live.

Witte established a gold-backed ruble, which lasted until the beginning of World War I. These "sound money" years witnessed unprecedented economic growth. When hyperinflation set in during the civil war after the Bolshevik Revolution, Lenin took the extraordinary step of again introducing a gold-backed currency called the "chervonets." This was the linchpin of his New Economic Policy, which sought to restore some market incentives to forestall the collapse of his regime.

Today, Russia must once again turn to monetary reform and privatization to restore the value of its national currency and unleash the great wealth of your nation. The ruble (if that's what you choose to call it) should be a "hard" ruble, one that will maintain its value. This is a far cry from the massive currency devaluations advocated by the austerity-minded, "no-pain-no-gain" economists at the IMF and World Bank. Rather than robbing millions of Soviet citizens of their plentiful savings, it would give them the capital they need to wrest economic power from the state and begin functioning as free economic agents.

One of your lieutenants, Valeri Chernagorodsky, told me on his recent visit to the United States, "We haven't just changed the players; we've changed the game." You must define the rules of this new game in such a way that the Russian people will be emboldened to take risks with their capital. A sound currency, the cessation of wage and price controls, and the radical reduction of all other government controls on the economy would galvanize the Russian people into joining the rush to a free market. When Ludwig Erhard established a strong currency and lifted wage and price controls, store shelves rapidly filled with previously scarce goods. The goods did not materialize out of the ether. They had been hoarded in anticipation of hyperinflation.

Erhard did have one advantage. The German economy was not a wholly-owned subsidiary of the German government. Your Russian government must quickly divest itself of its vast industrial holdings. As economist Paul Craig Roberts recently pointed out in *Business Week*, Russian factory managers and workers are already effecting a kind of de facto privatization of industry. Many managers are behaving as though they owned their factories, forging independent contracts with workers and other producers. The problem is that this privatization is occurring outside the law, so property rights are unclear and there is a potential for bribery and violence.

Rather than opting for a convoluted privatization plan built around a lottery or some other arbitrary system, you should simply hand over ownership of the factories—in the form of joint-stock shares—to the workers and managers. You yourself have said that the reason the Soviet economy is such a mess is that "We didn't fulfill the slogans we proclaimed in 1917," which included "Factories to the workers!"

Managers and workers would be free to buy and sell their shares, thus creating new pressures for efficiency and productivity and the beginnings of a capital market. Some factories will streamline their operations, increase output, and expand. Others are doubtless so inefficient or economically superfluous that they will have to be shut down and sold off piece by piece. Clearly, some people will benefit disproportionately by this process. But remember that when the economy as a whole is growing, initial differences in the distribution of wealth matter far less. In a dynamic entrepreneurial economy, the constant turnover of capital and resources will create new opportunities for those who start out at a disadvantage. In any event, Boris, you do not have the luxury of settling for a less rapid and direct means of privatization. Piecemeal reform will strangle itself in the crib.

Little House on the Tundra

Just as a growing economy will be vital to ending the housing crisis, so too will new housing construction be a key catalyst for Russia's *Ekonomicheskoe Chudo,* its "economic miracle." According to the U.S. League of Savings Institutions, housing construction and its related activities account for about 20 percent of all economic activity worldwide. As housing construction expands, entrepreneurs will rush to supply new products and goods for the emerging market. The American housing boom of the 1980s helped drive the longest peacetime economic recovery in our nation's history.

As with the privatization of industry, your immediate goal must be to quickly transfer Russia's government-owned housing stock into the hands of the people. Elena Kotova, the radical democratic chair of the Moscow City Council's Economic Policy Commission, has said, "The salvation of housing cannot be distinguished from

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

privatization and private enterprise." She's exactly right. People need assets to become entrepreneurs and to create new wealth. In the United States, homeownership is the dominant store of family assets, representing more than 40 percent of family net worth. It is a safe means of saving for the future, a source of collateral for obtaining credit, and a vehicle for passing on the family's accumulated wealth from one generation to the next.

Both America and Russia share a historic tradition of empowering people to own their own homes. In 1862, Abraham Lincoln signed the Homestead Act, which opened millions of acres of government land to anyone who promised to make a home there. Within a year, 1.5 million acres had been claimed by nearly 100,000 homesteaders and their families. The land was not sold at market rates; it was essentially given away for a nominal fee. As Lincoln told Congress, the American people "had a higher and more enduring interest" in settling the public lands "than in the amount of direct revenue to be derived from the sale of them."

Nearly half a century later, Russia's Prime Minister Stolypin, who like Lincoln was fated to die by an assassin's bullet, followed the American example. Asking "What, if not the individualism of small farm ownership, pushed America so quickly to the fore?" Stolypin transferred ownership of vast tracts of land to the peasants who labored on them. At the same time, he threw open the gates to Siberia, offering ownership of the land to those who would commit to settling it.

By 1914, over 40 percent of peasant households owned the land they lived on. As Stolypin scholar Paul Klebnikov writes, "To the dismay of socialist intellectuals, the peasants firmly rejected the notion of communal land tenure....Within a few years, the creaking provincial bureaucracy could not survey the lands and draw up the deeds fast enough."

Stolypin based his historic program on the commonsense faith that all people desire to own something of their own and, through private property, to build a better life. He said, "The desire for property is as natural as hunger, as the urge to continue one's kind, or as any other inborn characteristic of man." In this he was merely echoing the father of entrepreneurial capitalism, Adam Smith. Smith wrote that "the principle which prompts to save, is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb and never leaves us until we go into the grave."

Your goal must be to quickly unload the government's housing stock, and the fewer bureaucratic impediments the better.

The Bettmann Archive

Like Abraham Lincoln in the U.S., Russia's prime minister Pyotr Stolypin opened the dream of homeownership to millions of families.

Stolypin's bold Lincolnesque reforms should be the model for reversing the ravages of Soviet housing policy. Some 25 percent of Russian homes are already considered "personal property," meaning the residents exercise a kind of control bordering on ownership, although they do not own the land. These residents should immediately be allowed to buy at a nominal price their homes and the land on which they stand. The small purchase fee would help establish the principle that you can't get something for nothing, make the owner feel he has invested in his property, and provide a modest source of revenue for the Russian government's essential activities.

High-Rise Opportunities

Privatizing the rest of the housing stock—mainly Khrushchev-era, pre-fabricated high-rise apartments—poses a greater challenge. But here, too, the approach should reflect the simplicity and spirit of the Stolypin reforms. All apartment residents should immediately enjoy the right to buy at a nominal price. Your new housing law, which was passed by the Russian Parliament in August, is on the right track. It endorses a right to homeownership. But that law also provides for a complicated pricing system that would seek to value each home based on size, location, and other factors.

This concern for equity is understandable. A flat-fee giveaway will reward those whose political pull under the old regime brought them the largest and best apartments. But it has the considerable advantage of bypassing

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Archive Photos

Since World War II, private builders have produced nearly 70 million new housing units in the U.S.

the bureaucratic minefield that would have to be traversed in administering a more complicated scheme. Your goal must be to quickly unload the government's housing stock, and the fewer bureaucratic impediments the better. Once the link between individual effort and reward is restored in Russia, wealth will quickly accrue to those who earn it through hard work and ingenuity.

There are two central questions that arise regarding any plan to sell off the high-rise housing: Who will own the land, and who will maintain the buildings? For me, these are very familiar questions, because, as you know, the Bush administration is currently engaged in a revolutionary effort to let our own public housing residents manage and buy their homes. And indeed, both physically and managerially, Moscow's high-rises resemble Chicago's Cabrini-Green or New York City's Redhook public-housing communities.

Last year, President Bush signed a sweeping plan to create thousands of low-income homeowners in American public housing. It's called HOPE (Homeownership and Opportunity for People Everywhere), and it would build on the achievements of public housing communities that have been run by their residents rather than the inefficient government authorities that control most public housing. HOPE would dramatically expand resident management, gradually shifting responsibility for maintenance and upkeep to the residents. Ultimately, resident management would lead to homeownership.

The embryonic, privatized housing co-ops that are spreading rapidly in Russia operate similarly to the American resident management corporations. The residents of Moscow high-rises could form either co-ops or condominium associations as a prelude to homeownership. Each resident would own a sharehold interest in their building. The homeowners association would arrange for basic maintenance, through a combination of resident management employees and private contractors furnished by the new entrepreneurial economy.

Some American public housing units have deteriorated so severely that no resident in his right mind would want to own one. Under HOPE, these properties will be rehabilitated before being sold to the residents. By repairing those apartments that are not worth owning, your Russian version of HOPE should also encourage residents to form homebuyer associations. To finance this effort, most new public construction of homes should cease immediately (some will need to continue to help house troops returning from Eastern Europe). Resources currently devoted to new construction should be diverted to modernization and rehabilitation of the most dilapidated government-owned housing. To the greatest extent possible, the modernization should be carried out by new private firms, some of which may emerge out of the old industrial housing bureaucracy.

Those residents who do not want to buy their apartments would either have to rent their apartment at market rates or seek housing elsewhere, with the help of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a modest, portable housing voucher. Of course, they could also join the co-op and then sell their apartment and move elsewhere.

Abolish the *Propiski*

You should also abolish the present system of government-sponsored passes, or *propiski*, which a Russian citizen needs to move to a new apartment. This will remove the last vestiges of party and state control in individual housing decisions.

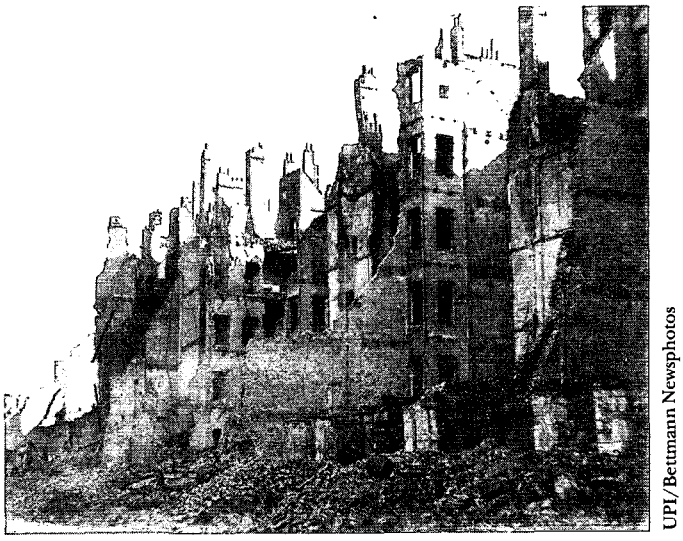
With the basic elements of a workable privatization plan in place, all limits on buying, selling, and renting apartments could be lifted. This would be the greatest single advance toward rationalizing Russian housing. Today, older, smaller families often possess large apartments while younger, larger families are crowded into cramped spaces. Many people live far from where they work, not by choice but by chance. A free market for housing would begin to rationally reallocate housing based on consumer wants and needs. In Western cities, as many as 5 percent of all workers move each year to seek or maintain employment with new or relocating enterprises. In the entrepreneurial urban Russia of the future, the figure could be higher still. By fostering mobility, a free market in housing will pave the way to a dynamic new labor market.

Finally, your Russian government should foster new housing construction, not by investing public resources but by eliminating all significant barriers to a private-sector homebuilding boom. In America, regulatory barriers and government intervention increase the cost of housing from 20 percent to 35 percent in some areas. We are working to correct that mistake. You should let the market decide what the new homes will look like and where they will be. As General George S. Patton once said, "Tell people where to go, but not how to get there, and you'll be amazed at the results."

The situation in Russia today is no worse than that of West Germany in 1948.

Toward that end, you should open up most undeveloped public lands in a latter-day version of Stolypin's Russian homesteading. Anyone who is willing to build a home with his own resources should be permitted to claim for himself and his family available land in designated government tracts. His property rights should be formally and unequivocally guaranteed. The government should play no direct role in building these new homesteads. Rather, the government should make housing investments tax exempt, encourage the creation of new commercial banks to help finance construction (already, some 3,000 such banks have sprung up), and provide the legal framework to guarantee contracts.

As Erhard's experience showed, for free-market reforms to work in conditions of economic collapse, they must be carried out all at once. Your bold speech to the Russian Parliament on economic reform suggested you are now ready to take that decisive step.



UPI/Bettmann Newsphotos

Hamburg 1945. Out of the ruins of World War II, sound money, low taxes, and reliance on the market led to a German economic miracle.

In the best of all possible worlds, Russia would be joined in this enterprise by many of the former Soviet republics. But, if necessary, Russia can and should go it alone. Delay can mean disaster, while a successful economic program will ultimately attract the support of the other republics. Time is of the essence. The future of entrepreneurial capitalism is at stake.

Russia stands on the threshold of an entirely new chapter in its history. A thousand years of tyranny are giving way to free elections, free minds, and free markets. You have only to unleash the full potential of the Russian people to realize a new millennium of prosperity and freedom. Russia's vast natural wealth in human and physical capital lies dormant, waiting to be tapped.

The same is true in the United States, where we must reduce the barriers to boundless economic growth. You are fortunate, Boris, because your newly constituted Russian legislative bodies are eager for change. Unlike the American Congress, they are ready to discard ideas that were tried and failed—ready to pursue ideas that have created more wealth in the last century than in all of previous human history.

And to think it all began when you stood on top of a tank outside the Russian White House. Maybe next time you're in Washington you could try the same trick on Capitol Hill. You bring the bull horn, I'll bring the tank.

Good luck and Godspeed.

Sincerely,

Jack Kemp

December 16, 1991

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Conscience of a Cultural Conservative

Paul M. Weyrich on the Politics of Character in Russia and America

An Interview by Adam Meyerson

Paul M. Weyrich, president of the Free Congress Foundation and chairman of the grass-roots network Coalitions for America, is the country's leading strategist and organizer for cultural conservatism. During the last two years, he has also played a major role in the election campaigns of President Boris Yeltsin of Russia, President Zhelyu Zhelev of Bulgaria, and other emerging democratic leaders of the crumbling Soviet empire. In fall 1991 Weyrich talked about politics in the East and at home with *Policy Review* editor Adam Meyerson.

***Policy Review:* What were your objectives when you started the Free Congress Foundation 15 years ago, and how well have you achieved them?**

Weyrich: Our principal objective has always been to train the conservative movement, so that it would be equipped to govern and to sustain itself in the long run. We've trained thousands of American conservatives, including some governors and many other elected officials, in the practical business of choosing issues, campaigning, and building coalitions. We are now doing the same kind of work in Eastern Europe and the former Soviet Union. Boris Yeltsin's advisers have said publicly that he wouldn't be where he is today if it weren't for the work we did training conservative candidates in Russia. And President Zhelev of Bulgaria has twice spoken at Free Congress to thank us for making possible the emergence of a democratic government in his country.

My wife sometimes says that Free Congress is the worst political name in history because it really doesn't describe what we do. The name grew out of a predecessor organization, the Committee for the Survival of a Free Congress, which was set up in 1974 to prevent the AFL-CIO from putting into office a veto-proof majority in Congress. We have long championed institutional reform in Congress, and were the first organization to push for term limits.

But over the past decade our greatest impact has been on the judiciary rather than Congress. Our willingness to fight on behalf of embattled judicial nominees signalled to the liberals that they could not simply destroy conservative nominees en masse and get away with it. Thanks to our efforts, as well as to the excellent system developed by the White House and the Justice Department for screening nominees, the federal judiciary today is populated with many more "strict constructionists" who follow the original intent of the Constitution.

More recently, we have taken the lead in articulating the principles of cultural conservatism. Although neither party has yet embraced these principles, I believe that cultural conservatism is the most promising political idea in America today.

***PR:* What have been your biggest mistakes and disappointments?**

Weyrich: My biggest disappointment is that following the 1980 election so many conservatives abandoned their home areas, came to Washington, got high-paying jobs and expensive mortgages, and began to be part of the problem. Because many of these people did not train successors in their states, we had to begin all over again. The movement lost its local base, which cost it the better part of a decade.

The whole focus of the movement, even in the states, was on Washington and the presidency. It wasn't until late in the 1980s that conservatives began to realize again that Congress is at least as important as the presidency, and that the states are at least as important as Washington. The turning point was the battle over Robert Bork's nomination to the Supreme Court in 1987, which we lost because the Left was superbly organized at the state and local levels, and could therefore put local pressure on wavering senators. Conservatives didn't have sufficient headquarters around the country to counter the Left's pressure and make it stick.

As for my own mistakes, I make so many on a daily basis that if it weren't for God's forgiveness, I would hate to be judged. In politics, I didn't do enough earlier to drive home the point that the conservative movement will have a long-run impact only if it is locally based. I also got too involved in the margins of Washington policy for what was accomplished. The endless meetings with the president, the Senate leadership, and various Cabinet members amounted to very little, when more time spent

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

building coalitions at the state level would have produced far greater policy results.

***PR:* As president of the Krieble Institute, a separate arm of Free Congress, you've held 35 training conferences for emerging democratic leaders in Eastern Europe and the Soviet republics. How would you describe your greatest impact?**

Weyrich: We've been to half the republics in the former Soviet Union and every country in Eastern Europe save Albania, where we're going this January. We've had an impact in Armenia and the Baltics. Some of the people in Poland we trained are unexpectedly now holding office, and I expect our work in Romania to bear fruit in 1992. Our greatest impact has probably been in Bulgaria, Russia, and Ukraine, where we were very active in the December 1 elections.

We helped Boris Yeltsin in two ways. First, by training successful anti-Communist candidates for the Russian parliament, we helped him win his initial power base as head of the parliament. Then, when he ran for president of Russia, we devised a strategy that enabled him to carry some of the rural areas, which turned out to be his margin of victory. By the way, one of Yeltsin's top campaign managers, both for the Russian parliament and for his presidential election, Aleksandr Urmanov, was trained by us and is now our field man for central Russia.

In Bulgaria as in Russia, the most important thing we helped democratic candidates do was to win in rural areas. When we first encountered President Zhelev's Union of Democratic Forces it was a terribly demoralized party. It had expected to win the 1990 elections, and it had carried the cities, but it was soundly defeated in the rural areas where Communist bosses were still in charge. The UDF members had no concept of how to get around the Communist control of the rural areas, nor did they think they could do so. Our biggest contribution was to change their outlook, to convince them that they could win, and then to teach them how.

There has been no problem getting democratic movements going in the cities of the East. Political parties are now legal, alternative media have been established, and the word can get out. Enough people in a city of a million are willing to stand together to form a demonstration of 50,000 or 100,000 in a public square. The Communists can only do so much in these circumstances. They don't have enough jails to arrest everyone.

But in the rural areas you have something entirely different. The Communist party boss still controls the ebb and flow of activities in the village. He sees to it that the people get sugar, he delivers the mail, he fixes the streets, he decides who gets meat and who gets a job. I learned about this first-hand growing up near Chicago under Mayor Daley. And I also learned why people are reluctant to cross a boss they think is going to be there forever.

To defeat the local boss, you have to break the psychology that says he will always control your destiny. We organized a program to identify pro-democracy forces in the rural areas, set up regional meetings so they could see they were not alone, and instructed them on how to handle intimidation from Communist authorities.

Free Congress

Weyrich introducing Bulgaria's President Zhelev, who thanks Free Congress "for making possible the emergence of a democratic government in his country."

In Bulgaria, when UDF forces complained that the Communists were promising more sugar to the people who would vote their way, and the democrats had no such financial ability to be competitive, my colleague John Exnicios invented a slogan that we have used now all over the East: "Take their sugar and vote for UDF." Now, that seems absurdly simple, and yet one could visibly see the change in attitude once this slogan had been pronounced. Secret ballots were essential for this to work, so we had to train people about their rights.

We also came up with a comic book idea, where the control of these party bosses was made into a joke. There is nothing more devastating in politics than ridicule. By passing around comic books in *samizdat* fashion, we helped break the psychology of control among local people.

***PR:* Presumably, you have had to cut back on some of your training conferences for conservative leaders in America. Why are you devoting more of your energy to the emerging new democracies in the former Soviet empire than to our own democracy at home?**

Weyrich: Well, it isn't true that we have slackened our efforts in this country. We are doing more training now in the United States than we have done for a decade. I have cut out many other Washington activities that I have been involved in, to free up my time for the people of the East and also for building the conservative infrastructure around America, particularly the television networks for conservative activists that we are establishing through Coalitions for America.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Why am I spending so much time in the East? This is a historic opportunity. I feel as if I am reliving 1776 in Philadelphia. The discussions I've had with people in the East about political principles, about where they want to take their country, have challenged me in a way that I have never been challenged in 37 years in politics. The people there want advice, and America, and American conservatism, have credibility as never before. I also feel a special obligation as an American to the people of the East. We failed these people at the beginning of the Cold War. We consigned many of them to slavery. We acquiesced to their absorption into the Soviet empire. Now I think we have the duty to help them defeat Communism for good.

"I make so many mistakes on a daily basis that if it weren't for the forgiveness of God, I would hate to be judged."

America's future is also at stake. The Soviets have been the greatest threat to world peace that mankind has known. Not only were they a threat with their awesome military arsenal, they also funded almost every low-intensity conflict around the globe. Their system was designed to foment revolution, to cause trouble, to destroy an orderly way of life. And if we could possibly make a small contribution to turning around that system and promoting democratic capitalism, which, for all its faults, is not aggressive, then I think we would be making an enormous contribution to world peace and stability.

Now, the State Department's definition of stability and mine are very different. The State Department's definition of stability is keeping an imposed order on a subjugated people. My definition is encouraging those same people to establish their own order in a context of freedom and democracy and free enterprise.

The neo-isolationist view is that we've paid the price and it's time that we just forget about the rest of the world and take care of our problems here. But if we do not have an aggressive Soviet Union, if we don't have underground funding for so many of these revolutionary movements around the world, we will have a far better place in which to raise our children.

***PR:* You are a deeply religious man, and indeed you were recently ordained as a deacon in the Melkite Greek-Catholic Church. Do you think a spiritual revival in the Russian people, and perhaps in the Kremlin itself, is responsible for the collapse of Communism?**

Weyrich: Yes, I think that it is largely responsible, and gets virtually none of the credit. The church is alive and well. The church in Siberia is in incredible shape. Not only are thousands of the old churches still standing back in use, churches are now opening in technical high schools and warehouses and other temporary facilities. They can't open churches fast enough. New seminaries have opened all around Russia, and they are brimming with people. The faith of the people is extraordinary.

One reason I am full of hope is because of the remarkable devotion for one of the saints of Russia. Seraphim of Sarov was a monk who lived mostly in the 18th century and died in the early part of the 19th century. Seraphim was a mystic, and people came from all over Russia to have a moment with him, because he could tell them what was going to happen in the future, as few people have ever been given the gift to do. Before he died, he forecast that in the 20th century, Russia would have more than 70 years of darkness, but that when his bones would be returned to their proper resting piace in Sarov a new epoch of Russian history would begin.

Seraphim's relics were discovered last spring in the Museum of Atheism in Leningrad, now St. Petersburg. They were returned to Sarov one week before the coup in August. I'm betting that Seraphim was as right about his prediction about a new epoch in Russian history, as he was about the 70 years of darkness.

***PR:* President Reagan said that Gorbachev is a Christian.**

Weyrich: Gorbachev is not a Christian. I asked one of the leaders of the Orthodox Church about that and he broke out laughing. I think that Reagan was sold a bill of goods. But many of the new leaders of Russia and other republics are Christian, and those who are not, like Yeltsin, understand the importance of religion. Yeltsin speaks frequently of spiritual revival. He attends church services now. Even though he hasn't internalized belief, he understands that the future of Russia, the possibility of Russia again becoming an important center of civilization, is intrinsically linked with the revival of the Church. Yeltsin constructed a museum in the Russian White House that every staffer and parliamentarian must go through. Nine-tenths of the displays in this museum are linked to the Church: Bibles, icons, vestments, and the like.

***PR:* Are you worried that the Orthodox Church might revert to its historic intolerance toward other faiths?**

Weyrich: It's a possibility. I'm troubled that the Orthodox are fighting with the Greek Catholics in western Ukraine, and in discussion with Orthodox officials, I have noticed a hardening of attitudes toward other faiths. This may be true of the hierarchy of Orthodoxy, but it is not true of the new Christians who have been converted in this era, particularly those in government and political life. People like Arkadi Murashev, the new police chief of Moscow and a recent Orthodox convert whom we have worked with closely, are very open to Baptists, Roman Catholics, evangelicals, Jews, to people of all faiths.

***PR:* You've been a strong proponent of self-determination for the different nationalities of the former Soviet**

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

empire—from Croatia to Estonia to Russia itself. Under what circumstances should the United States recognize the independence of a nation or regime? Under what circumstances should it not?

Weyrich: We ought to recognize the independence of a country when it has a government that has been elected by the people; when this government shows a commitment to democratic principles; and when the government shows a willingness to accommodate minorities within its own borders.

The recognition policy of the Bush administration has been very destructive. It is supposedly aimed at stability, but it is producing more instability than any policy that I can imagine.

When Secretary of State Baker signalled to the Serbs that we were for the retention of the current borders of Yugoslavia at all costs, they took that as a license to begin their war against Croatia. And that war has caused an enormous destabilization of the entire region, not just in Yugoslavia, but beyond its borders.

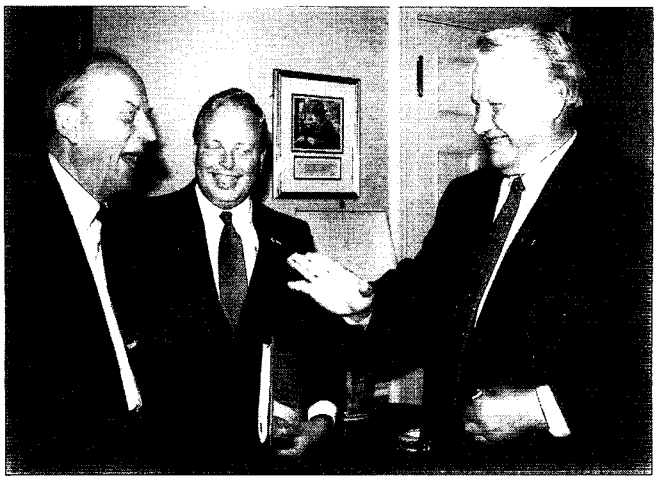
At the same time, there is a serious problem in that some independence movements do not take seriously the claims of self-determination by minorities in their midst. Georgia's President Gamsakhurdia talks eloquently about self-determination for his people, yet he does not treat the South Ossetians in the same fashion. Similarly, how can one argue that Russians are entitled to self-determination and should not be oppressed by the center, but that some division within Russia, which is a nation in and of itself, which was conquered at one time by imperial Russia, must remain part of Russia?

PR: **What's the main advice you would give to Yeltsin?**

Weyrich: Bite the bullet with complete economic reform, and do it quickly. The half-way measures currently proposed will leave the country in worse condition than it's in now. It is absurd to lift price controls without giving people the ability to buy and sell private property. If you simply let prices rise to the level of the international marketplace without providing real equity and a convertible currency, the people will suffer greatly and will blame the free market. But a free market requires that people have the right to private property. The pace of reforms in Russia now is designed for utter chaos, because it is too timid. There are too many voices saying, "We can't move too fast," or "Look at what has happened in Poland, they moved too fast and now they have problems." Rather, they ought to look at Hungary, because Hungary is prosperous. The output in Hungary is three times what it was in 1988, and the reason is because investment is flocking to Hungary. And the reason investment is flocking to Hungary is because private property is now legal, and investment is legally protected. Those steps need to be taken first, before anything else.

PR: **How have you been changed by your experiences in Eastern Europe and the former Soviet Union?**

Weyrich: I have been profoundly humbled. I have worked with people of extraordinary character, who have



Free Congress

Weyrich (center), with his benefactor Robert Krieble (left), devised a strategy for Boris Yeltsin (right) "to carry some of the rural areas, which turned out to be his margin of victory."

put their lives on the line and risked everything to fight for things that we in America take for granted. In the American political world there has been a profound decline in character over the past 30 years. It is very reassuring to know that there still exist people who have the backbone to do what is necessary, who are uncompromising and, at the same time, who know how to win public support. The people we have worked with in the East are not kamikaze pilots, they are not Lone Rangers attempting to rebuild their countries by themselves; they are building communities and movements. I am so grateful to have had the opportunity to work with them.

What saddens me about my experiences in the East is the way they have changed my relationship with American conservatism. It has been written that I have sold out to the Communists, that I am helping to establish a New World Order and contributing to the climate for disarmament in this country, that I have become just another Washington politician who cannot be trusted. Many of these comments came from long-term allies in the conservative movement. I will readily admit that I am a fallible human being who is not beyond making compromises; but the work my colleagues and I have done in the East is not one of them. This has been difficult work under the most unpleasant of circumstances, where travelling and living conditions are almost beyond description. Everything we have done over there has had the effect of weakening the Communists rather than strengthening them.

All my life, growing up in an ethnic neighborhood with people who had fled Communism, I thought that the greatest moment for conservatives would be the day when the subjugated peoples of the East would have an opportunity to work for liberty. I thought we would be dancing on the rooftops. I thought conservatives would jump at the opportunity to help friends of freedom in the East, people absolutely committed to democratic principles, religious people who are working to restore the Church. But I find now that many in the conservative movement want to pretend that nothing has changed. Many believe that all of this is some sort of a huge

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

AP/Wide World Photos

"A spiritual revival in the Russian people is largely responsible for the collapse of Communism."

Potemkin village, that we are all being duped, and that this is an enormous plot to disarm the country.

Conservatives need to stay connected with reality. If they get disconnected, they will cease to be a positive force.

Then there are other conservatives who acknowledge what has happened in the East, but say we should do nothing about it. They say we've paid the price with the Cold War and now we ought to let people over there figure out what to do by themselves. But it is much too early to walk away. Democracy movements over there are asking for help in running election campaigns, setting up free markets, ousting the party bosses who remain. While Communism is dead as an ideology, not all the Communists have surrendered power. There's also the threat of a fascist regime, in which Russia would return to its long history of expansionism. That wouldn't be good for Americans, or for our children. If conservatives don't help democracy movements that are working against fascism as well as Communism, we will have only ourselves to blame if something goes wrong.

***PR:* Turning to democracy at home, how would you assess the relative strength of economic and cultural conservatives today?**

Weyrich: The cultural or social conservatives are much stronger in terms of organizational strength. They are better disciplined and organized at the local level. They are establishing themselves all around the country. They are much more willing to be politically active. They are taking the building of a movement quite seriously.

On the other hand, economic conservatives probably have broader appeal with the electorate. The revolt against high taxes probably has the greatest resonance with the electorate of any issue in America.

Economic and social conservatives are still natural coalition partners on issues like taxes, crime, and quotas. Most economic conservatives are for lower taxes; most social conservatives want lower taxes for families. So it's possible to introduce legislation, as Senator Bob Kasten and Representative Vin Weber have done, that would combine tax relief of interest to both groups.

Relations between social and economic conservatives remain quite good on most fronts, with the exception of extreme libertarians who cross the border and do not believe in an ordered and civil society. I have no quarrel with libertarians who want a free-market approach for most of the country's economic problems, although I must say there are some who have made conservatism into an ideology not unlike Marxism, where reality must fit into the ideological box. Trade is one such issue. I want free trade but we don't have it because we won't exercise our power to insist on it. We should have drawn the line with the Europeans on their subsidies of Airbus, for example. Our companies, which are unsubsidized, can't compete with companies whose governments spend $20 billion to help their industries.

I and many other social conservatives also have to part company with libertarians who believe that there should be no laws governing pornography, no laws protecting the unborn, and no laws protecting society from drug users. I have been to coalition meetings where participants have attacked the term "traditional American values" as a code phrase for homophobia. That is not a good way to win support among social conservatives.

***PR:* You've often said the conservative movement was strongest between 1975 and 1981. What did conservatives do better then, both institutionally and politically, than they're doing today?**

Weyrich: In those days, we had local organizations that had been built up through the hard times of the 1960s and 1970s. We could call on them to do political work that would eventually translate into liberals being defeated and conservatives being elected. Today, those organizations have to be reinvented because many simply shut down after they thought that Nirvana had come when Reagan and the Republican Senate were elected in 1980. Most of the leaders moved to Washington and got jobs.

In 1978, I was able to put together a coalition of social conservatives, religious conservatives, gun owners, right-to-work people, and economic or defense and foreign policy conservatives in most of the country's congressional districts. If we found a candidate who was right on the issues, we could quickly have a viable political operation, identify votes, and turn them out. Today, in many areas of the country, we have no such operations. We have been doing our best to change that, and the situation in 1991 is far better than it was, say, in 1988 or in 1984 for that matter.

The growth of conservative state think tanks is a very important development. About half a dozen states now have really effective ones. We are also seeing the resurgence of local coalitions. James Dobson and Focus on the Family are putting enormous resources into state family groups, some of which are now organized around

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the Coalitions for America satellite network, and which are learning to cooperate with each other by virtue of being plugged into Washington. We have just begun to work on this satellite project, and it is growing daily. We will have movement headquarters all over America with trained activists who can work on an issue at any time. This will translate politically.

***PR:* You have long expressed the hope that the conservative Christian churches could supply the kind of precinct-level political base that labor unions provide for liberalism. Why hasn't this happened yet, at least in most parts of the country?**

Weyrich: It hasn't happened because church leaders fear that political involvement is potentially divisive within the congregation. Coming from a hierarchical church, I naturally looked to pastors, television personalities, and denominational leaders to organize political activity, but I now realize that among Southern Baptists and other evangelical Protestants this sort of involvement will have to come from the congregation upward. In due course, I think the conservative Christians will be the balance of political activity in the precincts, but it's going to come from the initiative of the lay people and not from the initiative of the pastors.

***PR:* How important is it for conservatives to have a national leader?**

Weyrich: I used to think it was unimportant but I was wrong. Ronald Reagan, close up, left a lot to be desired, but Ronald Reagan, the political icon, was really indispensable for vibrant conservatism, both at home and abroad. This was because the excitement about Reagan gave conservatives energy and enthusiasm for their cause. They did things in Reagan's name that he never knew about, and might not even have supported had he known about them. The same could be said of Barry Goldwater earlier. Nobody is inspiring such positive activity in the conservative movement today.

***PR:* What are the most important lessons of the 1991 elections?**

Weyrich: One general conclusion is that political establishments perceived to be out of touch with the people are not popular. A second is that taxes are unpopular, and politicians who insist on inflicting the people with higher taxes will pay the price for it.

The election of Kirk Fordice in Mississippi shows that the quota issue is still a very potent one for conservatives. I thought President Bush was very foolish to give up this issue and to sign into law what he knows, and all of us know, is a quota bill.

In Pennsylvania, Dick Thornburgh essentially campaigned on his resumé, while Harris Wofford campaigned on issues, and issues beat resumés. An important factor that has not been discussed much is that ethnic voters in Pennsylvania, who were Reagan Democrats, simply did not vote in that election. The voter turnout in ethnic precincts in Pittsburgh and in many of the ethnic areas of Philadelphia that have been big supporters of Republican candidates was abysmal.

The reason for this low turnout was not just the economy. It was also a revulsion against the president's position on Yugoslavia, the Baltics, Ukraine, and his propping up of Gorbachev. The White House has no conception of how unpopular its policies are in these ethnic communities. This could be a very serious problem for Bush in 1992. If there is a close election, which I am predicting, then in Pennsylvania, Ohio, Illinois, and possibly New Jersey, a Democratic candidate could carry those states just by virtue of ethnics being turned off and refusing to vote.

The 46 percent showing for the term-limit amendment in Washington state was impressive, because this

"It has been written that I have sold out to the Communists."

was the most stringent of any term limits proposed. The Washington proposal would have thrown out everybody of consequence in the state, including House Speaker Tom Foley, after two years. The showing was especially strong because opponents of the referendum were able to frame the issue as, "Do you want California to be able to get our water?" The proponents of the measure mistakenly did not answer these charges; in a referendum vote, if a charge is unanswered, anyone who has any reservations about the proposition will vote no.

The election that has been underreported was for the New Jersey legislature. Democrats had healthy majorities in both houses, and the last time Republicans controlled both houses was after the 1973 election. Now the Republicans will have veto-override strength in both houses. Few Democrats survived. The lesson here is very clear: if you repudiate your position on taxes, as Governor Florio did, the voters are going to take it out on you. This is why I am convinced that George Bush is in bigger trouble than he otherwise should be.

***PR:* How about Louisiana?**

Weyrich: The voters there chose the lesser of two evils. I've long advocated a "none of the above" line on the ballot, with the election to be rerun if "none of the above" gets more than 50 percent of the votes. The practice is now followed in some of the Soviet republics and East European countries, and if there were ever a case for it here, it was in Louisiana.

The campaign against David Duke was probably the fiercest negative campaign witnessed in modern times, so his background was well understood by every Louisiana voter. The voters knew about his sympathies for Hitler, his racist past, and his association with the Ku Klux Klan, which by the way isn't exactly a benefit in the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Photofest

"I thought conservatives would be dancing on the rooftops" when freedom came to the East. Instead, "many pretend that nothing has changed."

Catholic parts of Louisiana because the Klan is considered anti-Catholic. His opponents effectively brought up the economic problems Louisiana might face from boycotts if Duke were elected.

Therefore the fact that Duke got 39 percent of the vote ought to tell something to politicians. It means he is touching a chord and raising issues that people want to hear about and want dealt with. Thirty-nine percent of the people of Louisiana are not pro-Hitler racists; some are, of course, but even if you were to concede that half of Duke's voters fall into that category—and I think that is excessive—a substantial number of people in Louisiana feel so alienated from the political establishment that they're willing to pick somebody as embarrassing and as scary as David Duke, just to tell Washington and the politicians where they can go.

The issues that Duke raised are too important to be left to David Duke. Conservatives should continue to repudiate David Duke and his background and his lying. But we cannot back away from fundamental issues of fairness and colorblindness in race relations, welfare and the destruction of families, unchecked crime. If Republicans repudiate these issues, they're asking for voters to stay home or to even support their opponent.

***PR:* What do you think are President Bush's greatest strengths and vulnerabilities going into the election?**

Weyrich: His greatest strength is his ability to focus. He demonstrated his amazing concentration in the 1988 election, when he came from 17 points behind. That wasn't all Dukakis's self-destruction. Bush did what he had to do to win, and he did it well. We saw his ability to focus again in the Gulf, where he single-mindedly put together the coalition and then did what was necessary to quickly win the war.

Bush also learns from his mistakes. There are some people who, when confronted with error and the political consequences of bad policies, will just stick with them forever and go down fighting. But no opponent of Bush should underestimate his capacity to adjust. Once a president adjusts, it is very difficult for an opponent to campaign in the same vein against him. People generally want to support their president, they want to forgive him. They will only reject him, as they did Carter, when they feel that he simply cannot learn from his experiences.

Bush has many weaknesses. First, many voters have not forgiven him for his budget deal of 1990 and his repudiation of the "no new taxes" position that he took in 1988. Voters really did believe George Bush on this issue, contrary to what his advisors tell him, and because of the pledge they voted for him despite their misgivings. Now those misgivings are back.

The economy is a serious problem. He was handed a growing and healthy economy, and the Bush administration has seen the lowest growth rate in the postwar years. So he's going to have to answer for that regardless of whether we're coming out of the recession by the time of the election.

He has a problem that ethnic voters who are Reagan Democrats, who have supported Republicans since the McGovern era, are now very angry about his policies. The White House is still stuck in support for Gorbachev, still trying to re-create the Soviet Union, to maintain the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fiction of Yugoslavia, long after these policies had any utility, if they ever did have any. Bush is going to pay for this, particularly if it is a close election.

Bush also suffers from the weariness of a governing power being in office for a long time. Many people do not think of Bush as much different than Ronald Reagan, and therefore from their standpoint this is, in effect, a third term. Voters tend to think that if someone has been in office too long, he won't be creative. If Bush had a cutting-edge domestic agenda, he could keep the momentum going, telling voters, "Look, we have all this work left to do, the unfinished work of the revolution." Instead, he has been extraordinarily lacking in creativity, and therefore the voters just see him as coasting along, and they're not sure that they want another four years of coasting along.

***PR:* You've argued for several years that the most important political idea of our times is cultural conservatism, but it is not always clear how this idea translates into electoral politics. Which politicians or political movements come closest to embodying the principles of cultural conservatism?**

Weyrich: Bill Bennett is very close to the embodiment of a cultural conservative agenda. He understands cultural conservatism. He speaks about it. I would say he lives it. And were he to seek national office, I think that he would be the closest thing that we've had to a cultural conservative candidate by either party since the whole matter has been raised.

***PR:* What do you think of the prospect of Republican primary challenges, for example from Pat Buchanan?**

Weyrich: Pat Buchanan will have an impact if he runs a campaign aimed at focusing the anger of the middle class. If it is just a carping right-wing campaign against Bush, it won't go far. That was John Ashbrook's problem against Nixon. Buchanan, though, is very smart. He should not be underestimated. His problem is that he likes only the media part of the campaign and doesn't appreciate the importance of coalition building and voter identification and turnout.

***PR:* What shape are Republicans in for House and Senate races?**

Weyrich: They are in disastrous shape for the Senate, where I'm now predicting a Democratic gain of four or five seats and it could go higher. It's hard to find an incumbent Republican who is not in trouble. In fact the only Republican incumbent senator that I'd be willing to put real money on is Chuck Grassley in Iowa.

In the House, Republicans are in slightly better shape. They will probably hold their own, possibly even pick up a few seats. House Republicans are helped by reapportionment, by the retirement of a number of veteran Democrats from Republican districts, and by the much better job of candidate recruiting done by Spencer Abraham, the director of the campaign committee, than has been done on the senatorial level.

AP/Wide World Photos

"Conservatives should continue to repudiate David Duke and his background and lying. But we cannot back away from some of the issues he raises."

My biggest fear would be an election in which George Bush, without an agenda, is narrowly reelected and loses substantial support in the Congress to the point where he can't even get his vetoes upheld.

***PR:* What could Bush do to help Republicans most in Congress?**

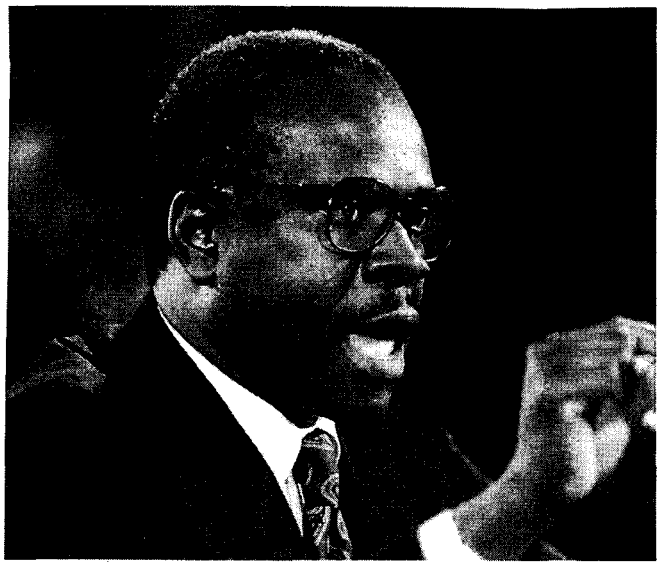
Weyrich: He could come out swinging against the Democratic majorities for preventing positive action that would help the economy. Now, Bush hasn't pushed for it either, so he's at least half to blame. But I have urged all along that the president point the finger at the Congress, show the American people all of the items of concern that he wants acted on, where they have refused to act.

Bush was in an enormously strong position domestically right after the Gulf War, and he spoke to a special session. What did he ask for? A transportation bill and one other insignificant piece of legislation. He should have demanded a pro-growth bill, action on choice in education, action on a wide agenda. Then, when Congress did nothing, he could run a Harry Truman-style campaign against the Congress. But the problem is that Bush likes the Congress; he's very chummy with a lot of these people. Even though George Mitchell delivers vicious, partisan attacks on Bush every chance he gets, Bush is rather fond of him.

***PR:* What are the most important political implications of the Thomas confirmation?**

Weyrich: One of my biggest disappointments with Ronald Reagan was that he didn't appoint more conservative blacks to high-level positions, and thus help create

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



AP/Wide World Photos

"There are two differences between what I did to John Tower and what Anita Hill did to Clarence Thomas."

an alternative leadership for the black community. On a variety of issues, many blacks are very conservative, but they vote liberal because their entire leadership establishment has told them that if you are a true black, this is what you must do. It's hard to argue with them, because the conservatives and the Republicans have almost no permanent presence in the black community.

I have a lot of quarrels with George Bush, but he did exactly the right thing in nominating Clarence Thomas, and I give him credit for sticking with him when other presidents, including Reagan, would have folded. The Thomas nomination gave legitimacy to blacks who believe in conservative values but have been afraid of the civil rights establishment and afraid to stand up and be counted. They were astonished to find out that there were lots of them. And the support that Thomas received within the black community showed the civil rights establishment that it can no longer dominate this group. By the time the whole ordeal was over, black conservatives began to get an idea who their real friends are and who was fighting to tear down a nominee they admired so much. Over the long run, this may lead many blacks to question their alliance with liberalism and the Democratic Party.

The Thomas confirmation was the first major legislative defeat for the civil rights coalition since 1957. The power of this coalition resulted from being able to threaten politicians that, if they voted the wrong way, it could deliver 90 to 95 percent of the black vote against them. That power is gone now, especially in the South.

What this will mean for politics depends on whether conservatives take advantage of the opportunity. In our own case, we are launching a television network for conservative blacks to talk about political and social issues. We've hired Phyllis Berry–Meyers, who testified on behalf of Clarence Thomas so ably, to put it together.

***PR:* In retrospect, how do you view your role in denying John Tower his nomination as secretary of defense?**

Weyrich: Well, I make no apologies for my role. What has never been disclosed publicly is that I was asked to do this by military figures who were afraid that John Tower would set a very bad example as the chief military officer. I think that Dick Cheney has been an excellent secretary of defense, and I will match him against what John Tower might have been any day. I certainly regret the way the poor man died, may God rest his soul.

Private actions have relevance for public life in all cases. They have particular relevance when the job requires a person to concentrate in a disciplined way without distraction. If John Tower had been nominated for secretary of HUD or commerce, I would have opposed him but I never would have done what I did. But the secretary of defense, next to the president, is the man who must be most alert in any crisis. You cannot have a person whose problem with drinking or with women or anything else would distract him from making a reasoned judgment. It's perfectly appropriate, as it is with the presidency, to raise these kinds of issues.

Having said that, I think the Senate behaved very badly in the Tower nomination, as it did in the Thomas and other nominations. John Tower should have had the right to face his accusers, including me, in closed session. I urged that at the time, but Sam Nunn wouldn't agree to it. I also joined Bob Dole in asking that a special session of the Senate be held to permit John Tower to come and answer the accusations against him, because most of the accusations came from unnamed sources who had no firsthand knowledge.

"Bush's greatest strengths are his amazing concentration and his ability to learn from his mistakes."

There are two differences between what I did to John Tower and what Anita Hill did to Clarence Thomas. I announced before John Tower was nominated that I would oppose him. When he was nominated, I asked to testify. I did so in public. I didn't materialize at the last moment. The other difference is that I told the truth, and I believe she lied.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NEW

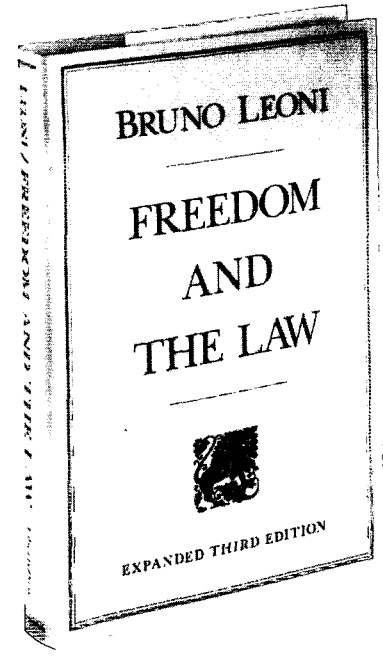
FREEDOM AND THE LAW
EXPANDED THIRD EDITION

By Bruno Leoni
Foreword by Arthur Kemp

"There are few seminal works as important to the current discussion of the rule of law as that of Bruno Leoni. His insights into the danger to the rule of law in a collectivist age, no doubt, provided the foundation for most contemporary thought that urges the value and need for a restoration of the rule of law."

—Edward B. McLean, Department of Political Science

Freedom and the Law is widely regarded as one of the most cogent introductions to the role of law in a free society: including the analogy between the market economy and law, and the contrast between legislation and law. This expanded edition includes four lectures published here for the first time.



260 + xiv pages. Foreword, index.

Hardcover	$20.00	0-86597-096-3
Paperback	$ 7.50	0-86597-097-1
		Liberty*Press*, 1991

ORIGINS OF THE COMMON LAW

By Arthur R. Hogue

"The book has an important function for which it does not have any real competition. It deals with the development of the English Common Law on a level which is accessible. . . . It was easier for students to use than any of the more 'advanced' texts. It is well written and reliable."

—R. H. Helmholz, University of Chicago

The Common Law of England may confront students and scholars in many fields. Dr. Hogue's book, first published in 1966, is a lucid history of the common law roots of our modern legal system.

271 + xvi pages. Biographical note, preface, glossary, index.

Hardcover	$10.00	0-86597-053-x
Paperback	$ 4.50	0-86597-054-8
		Liberty*Press*, 1986

Please send me:

Quantity Ordered	Title	Edition	Price	Amount
	Freedom and the Law	Hardcover	$20.00	
		Paperback	$ 7.50	
	Origins of The Common Law	Hardcover	$10.00	
		Paperback	$ 4.50	
			Subtotal	
		Indiana residents add 5% sales tax		
			Total	

Prepayment required on all orders not for resale. We pay book rate postage on prepaid orders. Please allow approximately 4 weeks for delivery. All orders from outside the United States *must* be prepaid in U.S. dollars.

☐ Enclosed is my check or money order made payable to Liberty Fund, Inc.
☐ Please send me a copy of your current catalogue.

Name _____
Address _____
City _____
State/Zip _____

Mail to: LIBERTY FUND, INC.
Department J103
7440 North Shadeland Avenue
Indianapolis, IN 46250

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

UNHAPPY RETURNS

The $600-Billion Tax Ripoff

JAMES L. PAYNE

How inefficient is government? To answer this question, most analysts look at the spending programs and estimate the waste involved. They examine, say, the $20-billion housing programs, and find that after paying for the administrators, the faulty construction, and so on, the programs may have delivered only $10 billion of actual housing to beneficiaries. Such analyses can produce persuasive critiques of government action, but they are inadequate. They leave out the largest component of waste: the burden of the tax system that raises the funds. When this cost is included, the case against many programs goes from persuasive to devastating.

Most evaluators of federal programs assume that the cost of raising tax revenues is trivial. The budgets of the Internal Revenue Service and the units of the Justice and Treasury Departments that assist the tax system added up to only $6 billion in 1990, less than 1 percent of net revenues collected in that year. A figure like this leads many people, even some conservatives, to endorse certain government spending programs on the grounds that government's fund-raising system is more efficient than a voluntary arrangement could be.

The trouble with this conclusion is that virtually all costs of operating the U.S. tax system are displaced onto the private sector. They appear nowhere in the federal budget, and are about 100 times larger than the budgeted governmental costs. These private-sector costs amount to 65 percent of tax revenue, or $618 billion in 1990. This means that every federal program costs the country 65 percent more than the announced budgetary cost. The $20-billion housing programs actually represent a sacrifice of $33 billion; a congressman's $125,000 salary actually costs the country $206,000. Far from being trivial, the burden of the tax system merits recognition as a policy question of major importance.

Fear of Filing

A comprehensive review reveals over 30 different types of burdens that the operation of the tax system places on society. Some of these are psychological or moral in character, and therefore difficult to quantify. For example, the tax system generates a great deal of anxiety, making tens of millions of citizens fearful that they might be questioned, audited, financially injured, or even sent to prison. This anxiety represents a significant social cost, although one difficult to define in dollar terms.

Among the costs that can be quantified, the most important are the tax-compliance burden and the economic disincentive cost. Fortunately, both have been the subject of careful empirical research so that we have some useful findings about their magnitude.

Tax compliance includes all the activities leading up to the filing of a tax return, including tax record-keeping, learning about tax requirements, making appropriate calculations, and entering data on the tax forms. The first efforts to study how much work went into these activities focused on individual taxpayers. A 1964 study of 118 Montana taxpayers by University of Montana economist John Wicks concluded that the value of taxpayer time and expenses in complying with the federal income tax was equal to 11.5 percent of the taxes paid. A similar study of 600 Minnesota taxpayers in 1983 by University of Minnesota economist Joel Slemrod and Nikki Sorum of the National Bureau of Economic Research found that tax-compliance labor and expenses amounted to over 7 percent of federal and state income-tax revenue.

While certainly significant, these figures greatly understate the total tax-compliance burden because they leave out businesses. Businesses have especially high tax-compliance costs, not only because of the complexity of their tax situations, but also because they serve as tax record-keepers and tax collectors for their employees.

Paperwork Mountain

In the 1980s, an accident of politics resulted in the production of a remarkably comprehensive study of the federal tax-compliance burden, one that included both businesses and individuals. The 1980 Paperwork Reduction Act required government agencies to assess the private-sector burden of complying with their regula-

JAMES L. PAYNE *is director of Lytton Research & Analysis in Sandpoint, Idaho. This article is based on his study of the burdens of the federal tax system to be published by the Institute for Contemporary Studies in fall 1992.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Archive Photos

Americans devote 5.4 billion hours a year to federal tax-related paperwork.

tions. Not surprisingly, the intent of this act—to lower the paperwork burden—has become a dead letter. Nevertheless, the legislation did prod the IRS to commission three blue-ribbon research teams, Arthur D. Little, Opinion Research Corporation, and Coopers and Lybrand, to study the tax-compliance burden on both individuals and businesses.

The resulting nationwide survey outclassed in scope and sophistication anything attempted before. Its findings were based on survey responses from 3,831 individual taxpayers and 1,474 businesses. Its lengthy questionnaire asked respondents to detail the time it took them to deal with each sub-aspect of the tax-compliance task, even the time it took them to photocopy and mail their returns. Through a sophisticated mathematical routine, the survey results were extrapolated to the entire universe of taxpayers to correct for imperfections in sampling. This is not to say that the study was unbiased. IRS officials—whose interest lies in underestimating the pain and suffering their agency causes American citizens—supervised the study and encouraged the researchers to make a number of questionable decisions that lowered the final estimates of the compliance burden. For example, the researchers followed the practice of discarding reported compliance times that seemed unreasonably high, and they averaged in the results of an admittedly invalid diary study in a fashion that reduced the final figure for individual compliance time by 22 percent.

In spite of the bias toward understating the tax-compliance burden, the Arthur D. Little figures are eye-opening. For businesses, the total number of working hours devoted to federal tax-compliance activities was 3.614 billion in 1985, and for individuals it was 1.813 billion, for a grand total of 5.427 billion hours. To put this figure in perspective, the work year for a typical employee is 1,844 hours. Therefore the 5.4 billion hours noted above translates into 2.943 million Americans working full time on federal tax-compliance activities in 1985. The private-sector tax-compliance work force was almost 32 times the 93,000-person work force of the IRS in the same year.

To convert these hours into dollar terms, we need to supply a figure for the hourly cost of tax-compliance labor. In estimating the hourly cost of this work for businesses, we must include not only the actual salaries of the workers, but also the associated fringe benefits, as well as workplace overhead: office space, computers, telephone expense, and so on. After all, tax-compliance employees cannot perform their activities sitting in the middle of a field. This total cost can be estimated from the costs actually experienced in the tax-compliance industry. The largest accounting firm, Arthur Andersen, had an employee-per-hour cost in 1985 of $35.47. The corresponding figure for the Internal Revenue Service was $21.14 per hour. I believe that an average of these two figures, $28.31, gives a fair estimate of the employee-per-hour (plus overhead) cost of tax-compliance work for the typical private business.

Using this figure to value the 3.614 billion business tax-compliance hours gives us a total cost of $102.3 billion in 1985. This amounted to 15.68 percent of net taxes collected that year.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Valuing individual tax-compliance hours presents a number of difficulties. The first impulse would be to use the nationwide average total compensation-per-hour figure, which was $13.70 in 1985. However, this figure would understate the appropriate value. First, the tax-compliance burden falls disproportionately on the more skilled individuals—professionals, entrepreneurs, executives—whose labor is much more expensive than that of the average worker. Workers at the lower end of the pay scale may have a compliance burden of just an hour or two using the simplest tax form, while elite workers may spend hundreds of hours in record-keeping and calculations to fill out a plethora of forms and supplementary documents.

A second problem that makes the simple compensation figure too low is that it does not include overhead. In order to perform tax-compliance duties, individuals need facilities just as business tax workers do, and these costs need to be figured in as well. The government is not a charitable organization to which the taxpayer should be expected to donate the partial use of his home, phone, car, filing cabinets, and computer. This should be charged on a free-market, business-like basis. These considerations lead to the conclusion that a figure very much higher than the nationwide compensation figure is needed to value individual compliance time. A good estimate can be had by using the business-compliance cost just calculated. In effect, we say that government is forcing individuals into the tax-compliance business, and therefore their time is worth what business compliance time costs.

Benefit–cost analyses mandated by federal law are all invalid, for they fail to include the true cost of raising funds.

Using the figure of $28.31 per hour to value individual compliance time, the 1985 total comes to $51.3 billion. To this figure must be added the cost of paid preparers (which was explicitly excluded from the Arthur D. Little study). Adapting information from the Slemrod and Sorum study, I have estimated the average cost of paid preparers in 1985 at $127.81. IRS figures show 45.22 million professionally prepared returns in that year; hence the total cost for this service was $5.8 billion. This brings the total individual tax-compliance cost to $57.1 billion, or 8.8 percent of tax revenues.

Both business and individual tax-compliance costs therefore amounted to $159.4 billion in 1985, or 24.43 percent of net tax revenues. Assuming this proportion has remained constant, we can estimate 1990 tax-compliance costs at $232 billion.

33 Percent Disincentive

Every tax amounts to a penalty for engaging in the activity being taxed. Sometimes legislators deliberately make use of this point: they put a tax on things they want to discourage, such as the consumption of alcoholic beverages. Unfortunately, they also levy taxes on productive activities such as working and investing. The result is to discourage these activities, therefore leaving the country poorer than it would have been without the tax.

We had a graphic illustration of this kind of injury when Congress enacted a 10-percent luxury tax on items including boats, airplanes, and jewelry in 1990. Almost overnight, these industries contracted as buyers resisted paying the higher taxes. According to a Joint Economic Committee estimate, the tax destroyed 7,600 jobs in the boat industry alone.

While the destructive effects of taxation have been appreciated for many years, only in the last decade or so have economists begun to undertake the calculations necessary to estimate the magnitude of this disincentive effect, or what they generally call the "marginal excess burden of taxation." Although they do not come up with the same numbers, their estimates tend to fall in the same range, so that we can have some confidence in their general findings.

The effect of the taxes on labor has probably been the most studied. Taxes on labor discourage production in two ways: 1) by taking away the fruits of labor, they cause workers to work less; and 2) they shrink the worker's take-home pay, which shrinks his purchasing power. In a 1981 analysis, MIT economist Jerry Hausman calculated the marginal excess burden of taxes on labor to be 28.7 percent of taxes. That is, for every dollar in taxes raised, the cost to society in lost production was 28.7 cents. A 1984 study by Charles Stuart of the University of California at Santa Barbara found this marginal excess burden to be 24.4 percent, and a 1987 study by Edgar Browning of Texas A&M put this burden at between 31.8 and 46.9 percent of taxes collected.

Studies of the tax on corporations indicate a very high marginal excess burden for this tax. In effect, a tax on corporations penalizes the collective economic endeavors that are so much more efficient than individual efforts. A 1981 Brookings Institution study by Princeton economists Roger Gordon and Burton Malkiel put this burden at 139 percent. That is, for each dollar raised by the tax on corporations, the country lost $1.39 in forgone production. A 1989 study of the corporation tax by Jane Gravelle and Laurence Kotlikoff of the National Bureau of Economic Research put the marginal excess burden at between 84 and 151 percent of the taxes collected.

Large burdens have also been found for taxes on capital income (interests, dividends, and capital gains). Taxation of capital income is destructive because it encourages people to consume capital instead of investing it to increase production. This destructive tax effect can so injure the economy that even government tax revenues are lower because of it. This "Laffer curve" situation appears to apply to the taxation of capital, according to a quantitative study for the National Bureau of Economic Research by economists Roger Gordon and Joel Slemrod. In their 1983 research they found that

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"abandoning entirely any attempt to tax capital income while leaving the tax law otherwise unchanged would have resulted in a slight rise in government revenue."

While the estimates noted above indicate substantial disincentive costs, they do not afford a single figure for the whole tax system. Fortunately, a team of economists—Charles Ballard of Michigan State University, John Shoven of Stanford University, and John Whalley of the University of Western Ontario—have tackled this problem with a comprehensive approach. They developed a general equilibrium model that describes the actual U.S. economy. The model was set up with 19 producer goods, 15 consumer goods, and 12 consumer groups, all of which are interrelated in terms of savings, investment, labor supply, and so on. Also incorporated into the model were all the different taxes, federal, state, and local. With this model, a computer could calculate the long-run effects of changes in tax rates on the level of production in the economy.

Naturally the results of such calculations are affected by the parameters used in the model, especially the assumed elasticities for labor supply and savings. The researchers employed several plausible values and came up with a range of marginal excess-burden figures, from a low of 17 percent of taxes collected, to a high of 55.9 percent of taxes collected. Using middle estimates for labor supply and savings elasticity in which the authors placed greatest confidence, the model estimated a marginal excess burden of 33.2 percent. Thus, if rates are raised to produce one additional dollar of revenue, the consequence will be 33.2 cents worth of lost production.

Naturally, this figure is only an estimate. Future studies are likely to produce somewhat different numbers as economists refine both their theoretical models and the economic data that they employ. But for the time being it serves as the best available estimate—and one that lies in the middle of many other estimates made by specialists in public economics.

In dollar terms, this 33.2 percent of revenue figure translates into a cost of $216.6 billion in 1985 and $315.6 billion in 1990. This is the value of the production that is lost owing to the disincentive effect of the tax system.

Audit Intoxication

While the compliance and disincentive costs are the main ones, the burdens of the tax system do not end there. There are a number of other areas where smaller, but significant, costs arise. To complete the picture, we ought to mention some of these costs, although space limitations preclude an explanation of how each has been estimated.

One set of costs are the burdens of tax enforcement. For millions of taxpayers, the filing of a tax return does not complete the work they have to do for the tax system. They become objects of some type of enforcement action. Responding to these enforcement initiatives involves a great deal of disagreeable, often stressful labor.

One enforcement contact is the audit, an activity that requires the expenditure of many hours of taxpayer time in both preparation and participation. In 1990, the IRS conducted a total of 1.2 million office and field audits.

More important than audits, in both number and

IRS errors drove Alex Council to suicide. His wife, pictured here, used the insurance money to beat the tax agency in court.

taxpayer burden, are the computer-based underreporter and non-filer programs. In these systems, IRS clerks trigger computer-generated letters to taxpayers who may have underreported their incomes or who may have failed to file a required tax return. In 1990, 4.9 million of these letters were issued.

The private-sector burden of dealing with these notices is compounded by the fact that they are often garbled and often wrong. One General Accounting Office (GAO) study found that these IRS computer notices contained errors 48 percent of the time. GAO studies, incidentally, contain a strong pro-IRS bias. Among other things, the GAO does not interview taxpayers to find out about IRS errors and abuses. It makes its studies from within the IRS offices, and uncovers only the errors visible from that vantage point. When I interviewed private tax practitioners about errors in the IRP (underreporter) program, they reported that the CP-2000 notices for their clients were "almost always" wrong. Right, wrong, or garbled, these millions of notices demand the time and attention of American taxpayers, as they struggle to iron out their cases with the "black hole" of IRS bureaucracy.

Too Complex to Understand

Another burden crops up in connection with filing penalties. As the U.S. tax system has become both more complex and more insistent in its demands, individuals and businesses fall by the wayside in keeping up with its demands: they do not make payments in the right amounts, at the right times, with the right documents. The result is that they are assessed penalties. The GAO reports, for example, that one-third of all U.S. employers are penalized each year in connection with the highly complex payroll tax deposit rules. (The GAO also reports that even IRS officials don't understand them: 44 percent of the penalties assessed by IRS examiners under these rules were wrong.)

The total number of IRS penalties in all programs has

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

grown to a staggering 29 million in 1990. Many of these penalties are unfair or erroneous, and taxpayers and their agents expend considerable resources writing, phoning, and even travelling to IRS offices to attempt to get them corrected. In 1990, the IRS abated nearly four million penalties, admitting, in effect, that they were wrong or unjustified.

Surveillance poses another kind of burden. In recent years, Congress has conscripted the entire banking and financial system as part of the network of tax enforcement. These private institutions are forced to impose reporting requirements on their customers, to devise and manage systems for storing and transmitting this financial data to the IRS, and to deal with the errors, confusion, and complaints that crop up in these systems. In 1990, one billion pieces of personal financial information were transmitted to IRS computers, and also to taxpayers (by first-class mail).

Lien and Mean

Another burden in the enforcement area concerns tax litigation. The confusion and complexity of the tax system means that there is a wide area of disagreement over what the law actually requires. *Money* magazine's surveys dramatically illustrate this point. Each year, the magazine challenges professional tax preparers to compute the federal tax bill for a family with a moderately complex tax situation. The experts always come up with wildly different answers. In the 1991 test, the "correct" tax was $18,724, but only five of the 49 tax preparers and accounting firms came even within 10 percent of this figure. The tax bills they calculated for this family ranged from $6,807 to $73,247.

In 1990, the IRS abated nearly four million penalties, admitting, in effect, that they were wrong or unjustified.

This kind of uncertainty leads to scores of thousands of legal disputes between taxpayers and the IRS every year. The main categories of tax litigation include audit appeals, Tax Court cases, refund litigation, criminal prosecutions, and general litigation. For 1990, these totaled some 190,000 cases. All of these disputes involve a substantial taxpayer investment in time and energy, and most of them involve legal representation costing from thousands to millions of dollars.

Still another enforcement burden involves forced collections, episodes where the IRS seizes property, levies bank accounts, or places liens on property. These can be stressful, time-consuming experiences—again, exacerbated by IRS carelessness. One tragic case that came to light recently was the death of North Carolina builder Alex Council in June 1988. Council's construction business was destroyed by a train of IRS errors and fumbling that culminated in an unjustified lien on his business and personal property in 1987. Unable to overcome IRS intransigence to get the matter cleared up, Council shot himself, and in his suicide note instructed his wife how to use his life insurance money to pursue the court case against the IRS—which she won.

The policy community—drifting with the benign assumption that the tax system poses trivial burdens—has quite ignored the furious pace with which the IRS is pursuing its collection activities. The number of liens—like the one that drove Alex Council to suicide—has more than doubled over the past decade, to 1,114,000 in 1990. The number of levies—the direct IRS seizure of bank accounts and paychecks—is even more astonishing: this figure has more than quadrupled in the past decade, to 2,631,000 in 1990. Again, IRS errors and blundering compound the work that citizens must undergo to respond to these actions. A GAO study of the levies in 1986 determined that there were over 16,000 mistakes, instances when the IRS seized money from the wrong person, seized taxpayer accounts even though the tax bill had been paid, or made similar errors.

Costs of Tax Avoidance

Another category of tax system costs are the burdens associated with tax avoidance and tax evasion. Many tax-avoidance techniques are legal: retirement income shelters, estate tax shelters, investment tax shelters, and foreign tax havens. Devising, selling, and managing tax-avoiding arrangements occupies the time of many highly skilled lawyers, accountants, and salesmen. Illegal tax evasion carries a social cost of a different kind. Tax evaders expend energy keeping out of the IRS's sight. They have to depend on less efficient barter transactions, they lose the efficiencies of the banking system, and their ability to expand their businesses is limited.

Estimating the social cost of all these other burdens of the tax system—enforcement, litigation, evasion, and so on—is a difficult task. It will probably take several decades of analysis before we have evolved the methodology to pin them down. In my survey of federal tax-system costs, I have made a first effort at estimating just the strict monetary costs in this realm. My calculations indicate that all these additional costs together add up to 6.78 percent of net tax revenues collected, or about $65 billion in 1990.

The complete picture of tax-system costs is shown in the accompanying table. These amount to some 65 percent of tax revenues, or $618 billion in 1990. This $618 billion is a real economic cost, the burden placed on society by the government's system of collecting taxes. This makes the tax system the most expensive government "program" of all, costing society over twice as much as defense, and over six times the bill for Medicare.

Tax System's Costs Are Variable

One reason policy-makers might be tempted to ignore this enormous burden is the supposition that it is a fixed cost. In this view, the $618-billion price has to be paid to collect taxes for defense, let's say, and therefore additional taxes to pay for all the other spending

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

programs are collected at no additional cost. This is a mistaken view. The costs of a tax system are, for the most part, variable, a function of the level of taxation. If you increase taxes to collect more money for another spending program, you increase the overhead costs of the tax system.

One way these costs increase is through the disincentive effect of tax revenues. The greater the fraction of income or profit you take away in taxes, the greater the disincentive to work or invest. The economists' estimates of this cost are calculations of marginal cost, that is, the additional burden caused by raising one additional dollar in taxes. In their formulas, the effect of tax rates on marginal excess burden is an exponential one: if you double tax rates (to collect more money for another spending program) you more than double the waste caused by the tax system.

Overhead Costs of the U.S. Federal Tax System

	As a percentage of net tax revenue	Amount (billions of dollars) 1985	1990*
Governmental costs	0.61%	$4.0	$5.8
Business and individual compliance costs	24.43	159.4	232.2
Economic disincentive costs	33.20	216.6	315.6
Other private-sector burdens, including costs of enforcement, forced collections, litigation, avoidance, and evasion	6.78	44.2	64.5
Total	65.02%	$424.2	$618.1

**Figures for 1990 are calculated by multiplying the percentages shown in the first column times the figure for net revenue collected in 1990. The actual costs, if they could be compiled, would be slightly different. For example, governmental costs in 1990 were actually $6.1 billion (0.64 percent of net tax revenue).*

The burdens of tax avoidance and evasion are also directly tied to tax levels. These burdens are simply a special category of disincentive effects. The higher the tax rate, the more it pays people to avoid or evade taxes. Therefore, the more resources they will devote to accomplishing tax avoidance: they will hire tax planners, for example, or they will fly abroad to set up tax havens, or they will make uneconomic decisions in disposing of assets to avoid a capital-gains tax, and so on. The same point applies to tax-enforcement costs: the larger the amounts of tax at stake, the more it pays people to hire lawyers to defend their position, or to write letters protesting a penalty, and so on.

At first glance, it might seem that the compliance burden would not be affected by the tax rate. It would seem that you could increase tax rates and still use the same tax forms, and require the same level of paperwork. In practice, however, burdens will increase here, too. Keep in mind that taxation is a pressurized system: taxpayers are being squeezed by the tax authority, and taxpayers are always resisting and adapting. An increase in pressure, in the form of increased tax rates, will provoke increased tax avoidance and evasion. In an effort to control this evasion, tax policy-makers add new requirements to the tax code, and these requirements increase compliance costs.

The 1980s have seen numerous examples of this pattern. In an effort to check tax-avoiding investment tax shelters, for example, the Treasury Department added the "passive loss" provisions to the tax regulations. The result is a more complicated tax form that takes longer to fill out. A typical accountant's fee is $50 per business on the tax form to deal with the passive-loss requirements. Another recent effort to stem tax avoidance is the alternative minimum tax—the calculations for which are extremely complicated and burdensome.

Another way higher taxes add to compliance and enforcement costs is through the addition of loopholes. Because the higher taxes cause greater harm to people, activities, and industries, the pressure will mount for legislative tax exemptions, exemptions that complicate the tax system. For example, as it became clear to congressmen that high taxes were impairing the ability of people to save for their retirements, they created retirement tax shelters. These have added new layers of bureaucracy and red tape to the tax system in the form of certification and reporting requirements.

Tax-system costs are not fixed. They vary, at least in a rough way, with the tax level. Therefore, sound analysis requires that they be allocated proportionately to each and every governmental program.

The Coming Revolution in Policy Analysis

The realization that a tax system has costs will have a profound effect on the analysis and evaluation of government programs. Entire fields of political economy need a revolutionary readjustment to take this simple point into account. One of these is benefit–cost analysis. In this technique, the analyst adds up the dollar benefits of a government program and then divides this number by the budgetary costs to arrive at a "benefit–cost ratio," or B/C. If the resulting number is greater than one, it means that the benefits outweigh the costs—assuming

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

that the costs and benefits are quantifiable. The policy implication is that the government spending program is socially beneficial, and therefore should be continued and even expanded.

Since this approach to program evaluation was first mandated by federal legislation in the 1930s, benefit–cost analysis has grown into a substantial industry, including both academic and governmental practitioners who have turned out thousands of evaluations. These analyses—without exception—have been invalid, for they fail to include the social cost of raising the funds. That is, the consistent practice in this domain has been to assume zero costs for the operation of the tax system.

In a recent textbook on benefit–cost analysis, for example, Michigan State University economist A. Allan Schmid declares that "in the case of cash transfers, the usual convention is to regard the B/C ratio as unity." In other words, when government attempts a straight cash redistribution of income, the assumption is that the dollars taken away from A in taxes represent the entire cost of the program, and that these dollars all make their way to B, the beneficiary of the redistribution.

How far from reality this "usual convention" of benefit–cost analysts has strayed! The cost of a cash transfer includes both the taxes from A plus the burdens of the tax system. Therefore, the B/C ratio of a cash transfer is always less than unity, even if there are zero administrative costs in getting the money into the pocket of the beneficiary. Using our 65 percent figure for tax-system costs produces the following benefit–cost ratio:

$$\text{Benefit-cost ratio of cash transfer} = \frac{\text{benefit}}{\text{cost (tax + tax system burden)}} = \frac{\$1.00}{\$1.65} = \$0.61$$

To correct this error of leaving tax-system costs out of benefit–cost analysis was one of the aims of the Ballard, Shoven, and Whalley study. As they pointed out in their 1985 *American Economic Review* article, "Many projects accepted by government agencies in recent years on the basis of benefit–cost ratios exceeding unity might have been rejected if the additional effects of distortionary taxes had been taken into account." Unfortunately, their point hasn't yet been assimilated in Washington.

Wasteful Self-Subsidy

Inclusion of tax-system costs has revolutionary implications not just for the evaluation of particular programs; it also impels a reassessment of the entire "helping state."

Year by year, governments increase the number of citizens they subsidize. The poor were one of the first groups to be targeted, then came the elderly, then farmers, then the unemployed, then small businessmen, then college students, then scientists, then composers. Today, it is difficult to find an economic sector or population group that government does *not* subsidize.

Unfortunately, the funds for all these helping programs do not come from the sky. The wealth the federal government disposes comes from the citizens themselves. Therefore, as government expands the size and number of its helping programs, it is bound to get into a situation where it is taxing the same people it is trying to help in its subsidy programs.

It is clear that this condition of "self-subsidy" is today rampant. The poor, for example, who are the target of so many federal helping programs, pay taxes to support those programs at every turn. If a poor person works even one day, he and his employer pay a 15.3-percent Social Security wage tax. The poor also pay federal taxes on phone service, gasoline, tires, cigarettes, and alcohol. And they pay the component of the corporation tax that gets shifted into prices. The same pattern holds for all the other beneficiaries of federal largesse. Farmers, the elderly, the unemployed, the college students, the working parents, the small businessmen, and so on all contribute enormous sums in taxes.

Squandering National Wealth

None of this would be a problem if federal transfers of wealth were perfectly frictionless, with no waste or distortion in either the collection or disbursement process. This is apparently what the Washington policy-making community assumes. If you take $1.00 from a farmer in taxes and then give him back $1.10 in various benefit programs, the assumption is that he is 10 cents to the good, and the rest of the world is unaffected.

Once we include the real-world costs of operating the transfer system, we see how destructive the pattern of self-subsidy can be—even to targeted beneficiaries. If, in the above illustration, the true cost to the farmer of paying $1.00 in taxes is actually $1.65 (owing to his tax-compliance burden, disincentive effects, *etc.*), then the tax/subsidy system leaves him a net loser to the tune of 55 cents to the dollar. And everyone else who has paid taxes to fund the farm subsidy is a total loser, bearing both the tax burden and the tax-system cost.

In both the House and Senate chambers the injunction ought to be emblazoned on the wall in the largest possible letters: "Thou shalt not tax and subsidize the same thing." Because legislators are unaware of tax-system costs, they fail to grasp this principle, and hence squander national wealth at a prodigious rate with the virtually indiscriminate extension of both the tax system and spending programs to all sectors of society.

Legislators are not the only ones to blame. After all, in ignoring the burden of the tax system, they are following generations of scholars and philosophers, who have also ignored it. From Jeremy Bentham to John Kenneth Galbraith, economists have assumed that the state could accomplish transfers with perfect efficiency. At last, empirical research is exposing the fallacy of this assumption. The result is bound to be a profound transformation in views on how government should act and what government can accomplish. ☎

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Holy Dolers

The Secular Lessons of Mormon Charity

Tucker Carlson

Marcus Sterne first became ill in the summer of 1986. One morning he felt weak and suffered spells of dizziness and nausea. When the symptoms persisted, Sterne (a pseudonym) went to his doctor. He was diagnosed with a pancreatic malfunction stemming from an imbalance in his pituitary gland. His weight fluctuated wildly and within weeks Sterne developed acute diabetes. The disease caused the blood vessels in his lower legs to constrict, which in turn weakened the bones in his feet. Ultimately Sterne's feet collapsed. He was first confined to a wheelchair, and finally to his bed.

Sterne's insurance company of 12 years dropped him six months after his diabetes diagnosis. Medical bills for the first year alone forced him to sell his successful photography business and lay off his three employees. After two years his $22,000 in savings were gone. At age 42 he was broke, unemployed, and facing a miserable prognosis for recovery. It was at this point that his church, the Church of Jesus Christ of Latter-day Saints (otherwise known as the Mormons), came to his aid. "The bishop came over one day and said: 'Marcus, we know the score and you need help.' From then on the Church's Welfare Program rescued me."

The Church immediately began to help Sterne reconstruct his finances. Realizing that Sterne and his wife were about to lose their house to the bank, the Church took over their mortgage payments. Next, it paid for Sterne's medical care and directed him to a free Church counsellor who could help him adjust to life in a wheelchair. Because Sterne would be unable to hold a job in the foreseeable future, the Church paid for his wife to complete nursing school. Lawyers from his Church successfully argued his Social Security disability claims in court free of charge. Finally, the Church made sure that the Sternes were free from material want. Boxes of essential foodstuffs arrived at their door. Volunteers painted their house and weeded their lawn. A group of men from the Church built them a new roof. At one point Sterne's diabetes became so severe that he stopped responding adequately to insulin and went into a coma. Knowing that he would be unable to afford a nurse during his long recovery at home, Church members learned how to operate Sterne's oxygen machine so that his wife would be free to continue her nursing classes. They sat by his bedside in shifts every day for a month.

Emphasis on Self-Respect

Once his physical needs were taken care of, the Church addressed Sterne's spiritual and emotional condition. One Sunday a month a group of Mormons came to his house and held a worship service in his bedroom. The Church bought him a VCR and gave him tapes of sermons and Church activities. Although he was bedridden, Sterne's Church was determined to keep him an active member.

As soon as Sterne was physically able, his bishop (the Mormon equivalent of a Protestant pastor) put him to work. He was given a list of 34 Mormon families to write every month and told to keep them updated on Church affairs. Sterne also became his bishop's secretary, and handled as much of the Church's correspondence as he could settle from his bed. When his immobility prevented Sterne from physically leading his Boy Scout troop, the Church arranged for him to become a regional scouting coordinator, enabling him to plan Boy Scout events over the phone. Sterne was never allowed to be idle during his illness. He believes that the work the Mormon Welfare Program gave him saved his life. "Can you imagine what would have happened to me if I couldn't be useful?" he says.

After five and a half years in bed and in a wheelchair Marcus Sterne has largely recovered from his illness. His diabetes is under control and his feet, which doctors had predicted would remain useless for the rest of his life, have healed. He is now the warden of a wildlife sanctuary in western Idaho and again the leader of a Boy Scout troop. His wife, who graduated with honors from nursing school, works in a nearby hospital. They have almost finished rebuilding their savings. Sterne attributes this miraculous recovery entirely to the Mormon Welfare Program. He says it provided for all of his needs without robbing him of his self-respect.

Marcus Sterne's story is not an atypical example of the success of the Mormon Welfare Program. The Lat-

Tucker Carlson *is assistant editor of* Policy Review.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Brigham Young University

Self-sufficiency and frugality have been the hallmark of Mormons since their Great Trek of 1847.

ter-day Saints Church has one of the most effective and compassionate welfare systems in the world. It works because Mormons realize that welfare has the same properties as nitroglycerine: if utilized correctly it can heal and sustain. If used wantonly it will certainly destroy. The Mormon welfare system's primary goal is not to provide material necessities for those in need, although it does accomplish this efficiently. It focuses instead on strengthening the family, teaching a vigorous work ethic, and helping the needy to help themselves. Its themes are ones the secular world would do well to study.

Work has occupied a central place in Mormonism since its inception. When Brigham Young, the second president of the Church, brought his group of exiled followers from Illinois to the Salt Lake Valley of Utah in 1847, he made the settlers stop intermittently during their journey west to plant crops that could be harvested by succeeding travellers. When the Mormons finally arrived in Utah the land they chose for their "newfound Zion" was barren. According to an official Church history, the pioneers, whose journey had lasted for almost a year and a half, began planting crops two hours after they arrived. They quickly made the desert bloom. Mormons held all farm land in common and formed cooperatives to provide Church members with essential goods. The ZCMI department store chain in Utah (which has assets of $124 million) is one surviving remnant of this period.

Few early Mormons found themselves in need of Church help because Church leaders taught that it was godly to manage money well. Leonard J. Arrington, a Mormon historian, estimates that 88 of the 112 revelations that Joseph Smith, the founder of Mormonism, claimed to have received from God dealt in some way with money. Smith preached repeatedly on the evils of debt. To this day the Church borrows no money to finance its ventures and instructs its members to do the same. Church leaders believed that sloth and poor planning were often the causes of poverty and they admonished Mormons to be practical. The responsibility for an individual's welfare lay squarely with that individual, and nowhere else. Brigham Young told his people, "If you are without bread, how much wisdom can you boast, and of what real utility are your talents?" Starving artists got little sympathy in 19th-century Utah. The frontier experience made hard work and frugality an indelible part of the Mormon ethos.

The Curse of Idleness

The Mormon Welfare Program, as it now exists, was created in 1936 by the then-president of the Church, Heber J. Grant. Grant was a successful entrepreneur whose ventures included banking, insurance, newspaper publishing, beekeeping, vinegar manufacturing, wool and lumber processing, sugar refining, ranching, and soap making. Grant's attitudes about labor are clearly reflected in the system he established. In the midst of the Depression, Grant declared that the intent of the Church Welfare Program was:

> ...to set up, insofar as it would be possible, a system under which the curse of idleness would be done away with, the evils of the dole abolished, and independence, industry, thrift, and self-respect be once more established amongst our people. The aim of the Church is to help the people to help themselves. Work is to be re-enthroned as the ruling principle of the lives of our Church membership.

Mormons have always recognized that rewards that come without work are poison for the human soul, that people have an innate need to produce to be happy, and that those who are not self-reliant cannot be free. They believe that the command to work was God's first instruction to Man. For Mormons, temporal labor is inextricably tied to eternal destiny.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The animosity that Latter-day Saints have faced since their beginnings in Seneca County, New York, in 1830 has shaped the Church's approach to welfare. Joseph Smith espoused doctrines (including polygamy and the teaching that Jesus is scheduled to return to Jackson County, Missouri) that made him unpopular among Gentiles, the Church name for non-Mormons. He was killed in his jail cell by a mob in 1844. Shortly after Smith's death Brigham Young led the bulk of the Church to Utah to build a new society, far from the Church's numerous enemies. Relocation, however, was evidently not the answer to the Church's unpopularity. Conflict grew between the federal government and the Church until it finally resulted in bloodshed in the "Mormon War" of 1857-58. Although Utah applied for statehood in 1849, it was not until 1896, when anti-Mormon feelings had subsided sufficiently, that it was admitted into the Union.

The hostility their Church has encountered from the outside world has imbued Mormons with a laager mentality. As a result, the Church is extremely secretive about its affairs. Mormons believe that they are a people set apart from the rest of the world with a unique commission from God. And although Mormon families are often extraordinarily active in community activities, such as the Boy Scouts, their commitment to the Church comes first. As one Church member said of Mormonism, "It's not a Sunday religion. We're involved in the Church seven days a week."

Humiliating Last Resort

While their insularity has no doubt added to ill perceptions of Mormons, it is indispensable to the Welfare Program. Because the Church sees itself as distinct from the nation as a whole, the Church leadership has always been committed to group self-sufficiency and independence from the federal government. Mormons do not accept most forms of public welfare or food stamps and Church relief programs operate without state funds. In addition, Mormonism's teleological doctrines predict natural disasters for which all believers must prepare. For this reason, buildings owned by the Church sometimes have reserve generators and emergency fuel supplies that are ready to be used in the event of a power failure. Likewise, the Church instructs members to store at least a year's supply of food, clothing, and fuel in their homes. These supplies have sustained many an unemployed Mormon family. Most of these teachings are faithfully practiced by the Church membership, making Mormons generally self-reliant and industrious. Consequently, fewer Mormons reach a level where they need to use their Church's welfare services.

The Mormons who do receive assistance from the Church can be sure their anonymity will be preserved. Their emphasis on self-reliance makes Mormons very secretive about who is receiving Church welfare. Normally only the people distributing it know who is getting assistance. While doing research for this article I was told repeatedly by Church officials that no Mormons would be willing to speak publicly about their experiences receiving aid. Most of the individuals I did speak with asked not to be described by name. To a person, they seemed ashamed of having been poor. Mormon culture retains the traditional belief that receiving charity is a humiliating last resort. This belief provides a powerful incentive for families on welfare to become independent as soon as possible.

Canneries and Storehouses

In the course of its 160-year history the Mormon Church has created an extensive system of food production and distribution for its needy members. The Church owns and operates a total of 50 canneries and 135 food production sites in the United States alone. Among them are a tuna-packing plant in San Diego, the Salt Lake Macaroni and Noodle Co., a honey refinery, as well as scores of farms that grow sugar beets and assorted grains. The Church also produces an entire line of dry goods under its "Deseret" label. These include soap, shampoo, diapers, bleach, and shoe polish. All of these commodities are shipped, via Deseret Transportation, to one of the 97 "Bishop's Storehouses" (which look like large convenience stores with no cash registers or security cameras) in different regions of the country. From there they are distributed, under the direction of the local bishop, to families receiving Mormon welfare.

The Church, as a matter of policy, invests a significant portion of its capital in farm land. For this reason few foodstuffs that reach the tables of needy Mormons are purchased from non-Mormon sources. Because its canneries and storehouses are staffed almost entirely by volunteers, the Church can produce and distribute these goods at a vastly reduced cost. These facilities also provide opportunities for welfare recipients to engage in meaningful work and allow them to earn a portion of what they receive.

It is a standard practice for young Mormon children to tithe and give fast offerings to the Church from their allowances.

Latter-day Saints possess a strong sense of responsibility for members of their Church. Every Mormon is asked to fast for two meals on the first Sunday of every month and to give several times the value of those meals to the Church Welfare Program. These "fast offerings" come in addition to the 10 percent of his income that each faithful Mormon must tithe annually. Mormons are taught the importance of giving from an early age. It is a standard practice for young children to tithe and give fast offerings from their allowances. Utah, which is two-thirds Mormon, has the highest per-capita charity donations in the country. Most of this money goes to the Church. The *Arizona Republic* recently estimated (the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

LDS Church

Mormon home storage. The Church instructs its members to store at least a year's supply of food, clothing, and fuel in their homes. Many an unemployed Mormon family has been sustained by these provisions.

Church does not release financial statements of any kind) that these donations total $4.3 billion a year.

Every Home Visited

The Church's means of income has direct benefits for its welfare system. First, Mormonism's emphasis on giving insures that the Church always has deep resources with which to help its poor. Second, because the welfare system is financed directly from the pockets of the Church membership on a local level, Mormons who receive welfare tend to appreciate the aid they get. Having paid into the welfare pot themselves, they know that their assistance doesn't come from some magic money mine (such as the state), but from their neighbors and fellow congregants. This helps them to see welfare not as a right, but as a gift from people who work.

The Mormon Church believes that poverty is most effectively dealt with by the people nearest to it. For this reason the Church hierarchy has a very small role in the allocation of welfare benefits. That power is left to each Mormon bishop. He is the clergyman responsible for a "ward," an individual church of between 300 to 500 people. The Church intentionally limits the size of wards so that one bishop can know his congregants sufficiently to recognize their problems and attend to them. There are few mediating authorities between bishops and the highest levels of the Church. With no bureaucracy to wade through, bishops can move swiftly and decisively to meet the needs of those in their care.

One of the welfare program's greatest strengths is its ability to identify and respond to the material needs of Church members before they are enervated by poverty. The Mormon Church uses the "Home Teaching Program" to accomplish this. Every Mormon family (even those who are inactive in Church activities) is visited monthly by two male members of the Church who are appointed by the bishop. These "home teachers" are assigned three or four homes to visit. They stop in after dinner to talk with a family, answer questions about the Church, and essentially act as intermediaries between the Church's leadership and its members. If the teachers see that a family requires assistance, they will report its condition to the bishop. The bishop can then respond to the need of his congregants before they become financially ruined or unable to help themselves. Knowing that women are often more willing to admit economic misfortune than men, the Church also sends "visiting teachers" from the all-female Relief Society to Mormon homes every month. Visiting teachers usually come during the day and talk to wives alone. This allows the local bishop to get a more complete understanding of the needs of his ward. While some families, especially those inactive in the Church, may resent what they perceive as an intrusion into their lives, this system allows those who need it to be offered aid. It also emancipates them from the indignity of asking for it.

Quick Relief

The success of the Home Teaching Program is well illustrated by the story of Andrew Wilson. In 1974 Wilson was a member of a moderately successful rock band. While on tour in Richmond, Virginia, the maid in Wilson's motel room left a Gideon's Bible on his bed. It was open to a chapter that began "A psalm of David to the chief musician." Wilson was intrigued and when Mormon missionaries visited his house a month later, he took it as a sign from God and joined the Church. He left his band and entered Brigham Young University, finishing in two and a half years. By the late-1980s Wilson was running his own business-consulting firm in McLean,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Virginia. The company did well at first, but ultimately folded, taking Wilson's savings with it. Wilson was left broke with a wife and five children.

His home teacher knew that Wilson's business was failing and was able to help him before his situation became desperate. The teacher cleaned out his own refrigerator and gave the Wilsons six boxes of groceries. When Wilson had trouble selling his house, his home teacher found a realtor who raised the asking price by $25,000 and sold it within a week. Finally, when Wilson relocated his family to Provo, Utah, they were greeted by a new home teacher already familiar with their situation. Andrew Wilson was saved from total indigence by a home teacher who was in a position to know his needs well and respond to them quickly.

The Home Teaching Program also allows the Church to assist its members during periods of transition. A young Mormon doctor in Washington is an apt example of this. While a student at Georgetown Medical School he received basic foodstuffs to help support his wife and four children. Every week throughout his internship and residency the Church gave him milk and cereal to ease his family's financial burden. This medical student obviously did not fall among the easily recognized poor. Yet his need was real, if impermanent. Mormon welfare workers estimate that half of recipients require temporary assistance of this sort. The help they receive from the Church at this stage insures that a higher percentage of them will rapidly become independent.

Like most Mormon endeavors, the Home Teaching Program is run efficiently. The Church carefully tracks the whereabouts of all Mormons to eliminate the possibility that families might "get lost" and therefore go unvisited. When a Mormon family moves from one location to another their Church records are sent before them to the ward nearest their new home. All Mormons who have not been excommunicated are considered members of the Church and are treated accordingly. This policy can be a source of frustration for those who would prefer to be "lost." One woman I spoke with told me she lived in fear that members of the Church in her area would discover she was a lapsed Mormon and begin calling on her every month. Likewise, one home teacher described being chased down the sidewalk by an angry ex-Mormon who was tired of being visited regularly years after his practical affiliation with the Church had ended.

Adoption for Unwed Mothers

While the Home Teaching Program effectively identifies Mormons who need assistance, the Church's social services are usually the means by which Church members get help. The Mormon adoption system gives support to single mothers, and in doing so addresses poverty before it occurs. Mormons believe both that single mothers are likely to find economic independence impossible, and that abortion, with few exceptions, is an unacceptable choice. For these reasons the Church tries to make it as easy and as painless as possible for unwed Mormon mothers to give their children up for adoption. The 66 Church social service agencies around the country place pregnant women in Mormon foster families where they can carry their children to term away from family and friends. This option allows girls who otherwise might be driven by shame to the abortionist to go through pregnancy privately. The Church also goes to great lengths to match adoptive parents with children. Genetic profiles of both are consulted to insure that, as one social services worker put it, "a child who's going to be six-one doesn't end up in a short family." Potential parents are always financially secure Church members in good standing,

Recipients of Mormon welfare are put to work, if necessary from their own beds.

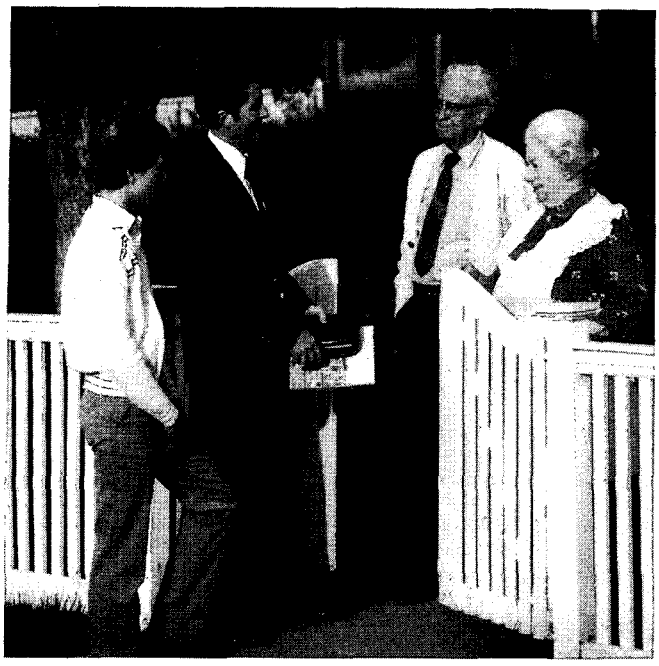
and pregnant mothers are assured that their children will be raised comfortably and within the Church. Finally, mothers and social service workers jointly choose the families into which the adopted children are placed. The Mormon adoption system benefits all involved: unwed mothers and Church members who want to adopt children. It also keeps the Church Welfare Program from being overwhelmed by single mothers unable to support themselves.

Demanding Family Responsibility

Once a Mormon has been identified as needy, he must first demonstrate that he has made use of his own resources before he receives help from the Church. After his own bank account and food storage, his resources consist of his immediate and extended family. Families are expected to help their relatives to the greatest degree that they are able. The newest Church Handbook of Welfare Services states: "No true Latter-day Saint, while physically or emotionally able, will voluntarily shift the burden of his own or his family's well-being to someone else." The "Needs and Resources Analysis" form that bishops fill out while assessing a family's financial condition includes a section entitled "Assistance from Family Members." It instructs bishops to "check persons willing and able to assist the individual" and to "explain any negative responses." To this end potential welfare recipients are asked to list the names and addresses of their family members. The bishop then calls these people and asks them for a monthly pledge on behalf of their relative. The Church is particularly aggressive in asking grown children to support their ailing parents. For instance, a bishop might call the son of an elderly woman and ask him to pay her rent. Shame inevitably plays a role in the bishop's efforts to solicit money. Most bishops are able to convince family members to pay at least a portion of the amount required to support the needy individual.

This policy has a two-fold effect. First, it reinforces the ties that bind families together. The idea that people who are related by blood are in some sense responsible for one another is essential to the stability of any society. The Mormon welfare program reminds families that

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



LDS Church

Early detection. Every Mormon family is visited once a month by "home teachers" who report to the bishop if anyone is financially or medically needy.

their relatives have claims on them. This strengthens families. As Charles Carriker, a Church welfare director in Washington, D.C., explained, "You love what you sacrifice for. If a family helps one of its members in a time of need, they become closer to that person." According to Constance Horner, the former deputy secretary of Health and Human Services and current director of presidential personnel, the Church's inclusion of family in its welfare system is at the root of its effectiveness. "People in need want to be connected to family and community. The Mormon Church recognizes these ordinary human facts. Our governmental social welfare systems, which isolate those in need and reinforce dependence, do not," says Horner. The second benefit of this policy, of course, is that it defrays welfare costs, allowing the Church to help more people.

Once a bishop has determined that a family has exhausted its own, and its relatives', resources, he meets with that family to discuss its long-range financial plan. Underlying this planning session is the belief that poverty is a temporary condition from which all able-bodied people who work hard and prepare for the future can emerge. The bishop typically creates a financial balance sheet for the family, listing their income in one column and their expenses in the other. He then counsels the family to eliminate all expenditures that create an "unsustainable life-style." These span the gamut from housing that is too expensive to movie rentals. In the words of a Mormon welfare worker, "The program is not here to pay for cable TV." Once their extraneous expenses have been eliminated, the bishop instructs the family to use the money it has to cover whatever debts require cash. These include car and mortgage payments and rent. The Church then provides for the rest of the family's needs. The family receives food, household items, clothing, and transportation until it has reestablished financial stability. In the event the family has no money to pay its debts, the Church will pay those debts directly. Bishops almost never give cash to families.

The Church's policy of discerning the specific needs of an individual or family before helping them has multiple benefits. First, it is cost-effective. The Church gives no more assistance than is necessary. Second, it reduces the number of people who are repeat applicants for aid. Individuals who are poor money managers are taught thrift by their bishop. This helps them become independent. Finally, people whose life-styles have driven them to poverty are forced to change their living habits before receiving welfare. This filters out individuals who are not willing to take responsibility for their own condition. In the eyes of the Church, not all poor people are created equal. The Mormon welfare system makes a distinction between "worthy" and "unworthy" applicants, to the benefit of all involved.

Worldly Clerics

The bishops who administer the Church Welfare Program are able to help applicants for aid make good financial choices because they are often successful businessmen themselves. In contrast to other American churches, the Latter-day Saints have no paid clergy. The Church does pay some of its administrators, but bishops usually have full-time jobs apart from the Church to support themselves. The president of the Church, Ezra Taft Benson, was secretary of Agriculture under Eisenhower. Jon Huntsman, the president of a group of wards in Salt Lake City, is also the president of the Huntsman Chemical Corporation, the nation's largest producer of polystyrene packaging. J. W. Marriott Jr., the president of the Marriott hotel and restaurant chain, is a regional representative for the Church. Many bishops are prominent lawyers or business owners. The net result is a clergy that is wise in worldly matters and therefore better able to help its members in need. Mormon bishops are able to speak from experience when they plan a welfare recipient's ascent from poverty.

The Church is particularly aggressive in asking grown children to support their ailing parents.

Another benefit of Mormon bishops' work experience is the job-placement help they can give unemployed Church members. In every geographical region with a substantial Mormon population the Church operates an office devoted to finding jobs for unemployed members. The 101 American employment centers found jobs for 53,947 people in 1990. Of these, the Washington/Baltimore office alone placed 1,100. Individuals receiving welfare are referred to this service and are expected to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

seek employment actively. Mormon employment services are so successful because the people running them often have been in hiring positions themselves. This gives them a realistic sense of what employers look for. Church employment offices maintain a variety of programs that teach marketable skills to welfare recipients. These include computer programming, secretarial work, and experience in one of the Church's canneries.

No Free Lunch

While the Mormon Welfare Program does provide job training for its recipients, the Church believes that, for the jobless, a change in attitude can be more helpful than a change in vocation. Bob Jones, a welfare coordinator in Washington, D.C., estimates that 90 percent of people who are consistently unemployed lack a work ethic rather than job skills. According to Jones, "Everybody wants a job, but not everybody wants to work." Mormons recognize that laziness is one of the most important inhibitors to prosperity. The Church believes that every individual, no matter what his condition, can contribute significant labor. Even the elderly and the infirm can, and should, do something in return for the goods they receive. This policy is a manifestation of the Mormon understanding that people need to work to retain their dignity, and that labor is good for its own sake. Those unwilling to work are cut off from Church aid; people who are drawn to the Mormon Church by the hope of a free lunch soon look elsewhere for handouts.

Even advice that the Church leadership gives to its members comes with obligations. Individuals who receive Church counselling for financial or emotional reasons are required to put what they hear into action. In other words, if a man is told by his bishop to find a cheaper apartment, he has the choice of either doing so or losing his welfare benefits. Counselling, in the eyes of the Church, is much like money or food. It is a commodity that shouldn't be wasted on those who are too lazy to utilize it.

The Mormon version of workfare yields significant practical results. In 1990 the Church counted 228,414 days of labor donated by its membership to various Church welfare facilities such as canneries and farms. Much of this work was done by welfare recipients. If calculated at the average American hourly wage, this represents over $19 million in free labor for the Church. The welfare program, then, is able to pay for many of its expenses through the efforts of its beneficiaries.

The Church's popularity in developing countries is directly related to the superiority of its welfare system. Of the eight million Latter-day Saints worldwide, a sizable percentage live in Latin America and Africa. Mexico and Brazil combined have almost one million Mormons. Most of these conversions were made by the 44,000 missionaries and 296 full-time welfare workers the Church sends abroad each year. Many of the countries to which the Church sends missionaries are fecund ground for Mormon proselytization because they are so poor. In a country where Church-based welfare is the destitute's last recourse, the Mormon Welfare Program, with its emphasis on the family and compassionate

The explicit aim of Mormon welfare is to wean people from it.

programs, is the Church's most effective form of public relations.

Perhaps the most telling measure of the success of the Mormon Welfare Program is its turnover rate. The average able-bodied person receiving Mormon welfare becomes independent in a little over 100 days. This is a reflection of the Mormon belief that accepting welfare might be a necessary evil, but it is always an evil. Compare this to the federal welfare system in which half of the families currently on AFDC will remain on the dole for over 10 years. The explicit aim of Mormon welfare is to wean people from it. That it succeeds is its greatest achievement.

The Mormon system is not a panacea for America's welfare crisis. It doesn't address the most difficult question for private charities and public welfare agencies: what to do about the children of people who refuse to get their lives in order. The Mormons are spared this question because they know that public programs can protect the families of those to whom they deny assistance. Also, because the Church's welfare programs are inseparable from Mormon theology, they are not always suited for other faiths or for the unreligious. Nonetheless, Mormon welfare has three crucial themes to offer modern America. First is the fundamental truth that people need to work for what they receive, that labor is a sacred function, and that success comes only incrementally and through sustained effort. Second is the insistence that families be responsible for the well-being of their members. Third is the understanding that the needy can be taught to help themselves. The poor are not objects of pity or compassion, but people who, for the most part, have the capacity to become independent. To treat them as less is to infantilize them and risk rendering them permanently unable to manage their own lives. The lessons of Mormon welfare are not complicated or particularly erudite, yet they provide the basis for genuine welfare reform in America.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Mr. Symms Goes to Jamba

A Kind Word for Congress in Foreign Policy

David Brock

Three years into the administration of George Bush, the salient features of U.S. foreign policy on his watch have been brought into sharp focus. These have been described by a number of foreign affairs analysts as a penchant for order over change; an emphasis on pragmatic reactions as opposed to fixed principles; a high regard for the authority of multilateral institutions and processes; and a heavy reliance on personal relationships and secrecy in the conduct of diplomacy.

The president and his foreign-policy cohort exhibit a marked distaste for just about all of the hallmarks of foreign policy under Ronald Reagan—most notably a concern for freedom and democracy, a vigorous public diplomacy, and an uncompromising anti-Communism.

The dramatic triumphs of the West since 1989—the fall of Communism in Eastern Europe, the seemingly successful prosecution of the Gulf War, the economic and political liberalization of Mexico, and finally the dissolution of the Soviet Union—have so far muted most open criticism of Bush's foreign policy, at least in his own party. Yet many conservatives are increasingly disturbed by the direction of American foreign policy—particularly Bush's scorn for self-determination in the Soviet republics, his acquiescence in China's crackdown on liberty, and the moral equivalence he ascribes to Israel and the Arabs in Middle East peace negotiations.

A close look at how the momentous events of the past decade were influenced in the foreign-policy process in Washington nevertheless ought to cheer conservatives about the prospects for turning policy in a more desirable direction. It will also lead them to a surprising place—the corridors of the much-vilified U.S. Congress, which has had a more salutary effect on foreign policy over the past 15 years than most conservatives realize.

Near Heresy

Given that this is a near-heretical notion in conservative circles, some clarifications are in order. First, in using the term "conservative," I am not referring to right-wing isolationists, or to the more influential (but no more numerous) advocates of realpolitik who give short shrift to the goal of promoting liberty, democracy, and other American values throughout the world. I am referring to the sizeable majority of conservatives who support the continued projection of U.S. power, influence, and values abroad—commitments affirmed in the last three national GOP platforms.

Second, this is not an effort to debate theoretical separation-of-powers questions that will never be settled. The plain fact is that Congress has recently inserted itself into foreign policy-making on an unprecedented scale, and will continue to do so in the years to come.

Third, I have no intention of defending all that Congress has done in the foreign policy-making field. Dozens of congressional procedures and practices desperately need to be reformed, such as the bundling of unrelated spending bills into massive appropriations legislation with the deliberate objective of confusing voters and making it more difficult for presidents to exercise their constitutional veto authority. And I certainly do not mean to defend the laziness, incompetence, and colossal policy misjudgments of too many individual members of Congress—in particular, the sympathy many exhibited toward tyrants such as the Nicaraguan Sandinistas and the knee-jerk opposition by most congressional Democrats to even the humane and judicious use of military force by the United States.

My goal, rather, is to stress the important role that Congress has played in advancing the conservative foreign policy agenda. The prevailing conservative view of executive–legislative relations is that foreign policy is the prerogative of the president. Most conservative politicians and pundits would limit congressional involvement in foreign policy to ratifying treaties, approving nominations, passing budgets, and declaring war—and they have interpreted this last power granted Congress in the Constitution so narrowly of late as to have rendered it mostly *pro forma.*

This view is totally out of sync with the reality of the past 15 years, during which many conservative goals have been achieved only as the result of pressure from Capitol Hill over the opposition, even in the Reagan administration, of the State Department and military bureaucracies.

David Brock, *a journalist in Washington, D.C., is writing a book on Congress and foreign policy for HarperCollins.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

What is more, conservative policy ends have frequently been achieved by the same unconventional means that conservatives vehemently criticize when liberals in Congress employ them, namely micromanaging executive branch programs, holding nominations hostage for policy reasons, leaking stories to the media, unleashing their staffers, even conducting free-lance personal diplomacy.

Nicaraguan Distortion

There has long been an influential strain of thought, dating to Alexander Hamilton's admonitions in *The Federalist*, in support of an unfettered presidency in foreign affairs. Historically, such views have prevailed among the foreign-policy elites of both political parties. But in the 1980s this became the rank-and-file Republican orthodoxy.

The spread of this view resulted largely from the bitter contest over aid to anti-Communist guerrillas in Nicaragua, where Democrats in Congress undermined a cause that most conservatives thought was morally just and strategically necessary. Still unsatiated, the Democrats sought to criminalize the actions of executive branch officials responsible for Nicaragua policy. The Contra battle greatly distorted the lens through which conservatives analyzed the executive–legislative power struggle. It led to ill-considered defenses of presidential power rather than presidential policies, and denigrations of congressional power rather than of congressional actions.

This has been a fairly new phenomenon. For most of the 20th century, a long line of liberal internationalist Democratic presidents (Woodrow Wilson, Franklin Roosevelt, Harry Truman, John F. Kennedy, and Lyndon Johnson) have been avatars of presidential power in their battles with a more skeptical, isolationist Congress.

Republicans, by contrast, distrusted a super-charged executive. The GOP Senate rejected Woodrow Wilson's Treaty of Versailles, with the League of Nations covenant, in 1919. In the "Great Debate" of 1951, Senator Robert Taft of Ohio and other leading Republicans contended that the president had no authority to send troops to Korea or Western Europe without congressional authorization. A 1954 amendment offered by Senator John Bricker, also a Ohio Republican, would have restrained the president's power to reach executive agreements in foreign affairs. It failed by one vote.

But by the 1970s, the foreign-policy programs of the two major parties, and their viewpoints on the executive–legislative relationship, had inverted. Mainline Republicans, in both the White House and Congress, had completed their turn toward internationalism, which had begun after World War II, and, having won the presidency in 1968 and 1972, were wary of the foothold in Congress gained by the left wing in the elections of 1972 and 1974. The Democratic Party in Congress was split, with the post-Vietnam neo-isolationists ascendant, and the old-style liberal interventionists (soon to be called neoconservatives) embattled. The former group campaigned against the "Imperial Presidency," a model that the latter group had championed.

The story of how the Democrat-controlled Congress battered the Nixon and Ford administrations on foreign policy—allowing South Vietnam to fall to the Communists by refusing to send it ammunition when the North violated the Paris Peace Agreement, passing the War Powers Act, subjecting the intelligence agencies to new oversight provisions, establishing a congressional veto over arms exports—bears no re-telling here. Certainly, as we saw in the more recent debates over U.S. policy in Nicaragua and the Persian Gulf, the reflexive opposition to presidential use of force and the deep-seated doubts about the morality of extending American influence that undergirded these moves still hold sway today among a majority of Democrats in Congress.

But the political and policy divisions between the executive and legislative branches were never so neat, as became clear in the Ford and Carter presidencies. The executive branch also was beleaguered by critics of détente in Congress, both neoconservative Democrats and New Right Republicans, who passed the Jackson–Vanik amendment barring most-favored-nation trade status to Communist countries that denied their citizens free emigration, thwarted President Carter's first choice to head the CIA, exposed the presence of a Soviet combat brigade in Cuba, caused the cancellation of Carter's plan to withdraw troops from South Korea, and sank SALT II.

The prevailing conservative view of executive–legislative relations is totally out of sync with the reality of the past 15 years.

Thus in the mid- and late 1970s the exertion of congressional authority in foreign policy was no longer solely associated with isolationists on the Right or the Left. The conservative victories of that period were precursors to more muscular interventions in foreign policy by conservatives (often in bipartisan coalitions) from their base camp on Capitol Hill. Congress has since been just as often a step ahead of the executive branch in foreign policy, as it has been constraining of presidential action. Furthermore, the dispersal of foreign-policy power within Congress has meant that a small band of committed conservative legislators and staffers can affect foreign policy irrespective of the views of the majority party in Congress.

Turning Point in Afghanistan

Consider the Reagan Doctrine of support for the anti-Communist guerrilla forces battling Soviet-backed regimes in Afghanistan, Angola, Cambodia, and Nicaragua. With the important exception of Nicaragua, the record shows that the Reagan Doctrine was initiated

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

AP/Wide World Photos

Boris Yeltsin with Senator Bob Dole. Russia's first elected president received a warmer welcome from Congress than from the Bush administration.

and implemented by bipartisan majorities in Congress over the objections of an executive branch bureaucracy that consistently underestimated the importance of military pressure in bringing about negotiated political settlements to so-called regional conflicts.

Since Reagan's personal commitment to the rebel movements was not in question, the lesson is that empowering the president in foreign policy often translates into empowering an unelected bureaucracy whose aims, whatever else they may be, are almost always inimical to conservative policy goals. In each of the three cases, if congressmen had not assumed the role that some would like to reserve for the secretary of state, the political arrangements on track in each country now would have been reached on terms far more favorable to the Communists.

Thanks to the efforts of New Hampshire Republican Gordon Humphrey in the Senate, and Texas Democrat Charlie Wilson in the House, among other members, Congress doubled the amount of military and humanitarian assistance sent to the Afghan mujahideen between 1984 and 1988, aided allies in the executive branch who favored supplying the mujahideen with Stinger missiles, scuttled the secret deal by which the U.S. State Department had agreed to cut off aid to the rebels on the first day of a Soviet troop withdrawal, and helped redirect U.S. covert aid away from Islamic fundamentalists favored by the Pakistanis and the CIA and toward more pro-Western guerrilla commanders.

Much of this was achieved through traditional legislative channels, but some resulted from what conservatives might call micromanagement. In dozens of letters Senator Humphrey and his staff hounded recalcitrant State Department and Agency for International Development officials who were dragging their feet in setting up humanitarian programs for the mujahideen that had been mandated by Congress. The decision in 1986 to send Stingers led directly to the Soviet retreat from Afghanistan, and marked the beginning of the end of the Cold War. This decision was opposed by the State Department, Joint Chiefs of Staff, National Security Council, and CIA bureaucracies; it resulted from personal appeals to Reagan, CIA Director William Casey, and Secretary of State George Shultz by Senator Orrin Hatch of Utah, who was accompanied on two congressional delegations to Pakistan by his former (and current) aide Michael Pillsbury, then an assistant secretary of defense who strongly advocated supplying the Stingers.

Stingers for Savimbi

The successful repeal of the Clark Amendment, which since 1975 had prohibited U.S. assistance to the Angolan anti-Communist resistance, sprang from a private meeting between rebel leader Jonas Savimbi and Senator Steven Symms, an Idaho Republican, in Jamba in 1984. In the House, Democrats Claude Pepper of Florida and Sam Stratton of New York led the Clark Amendment repeal effort.

Pepper then quickly introduced a bill to provide the rebels with humanitarian assistance. Republican Representative Mark Siljander of Michigan attracted over 100 co-sponsors on a bill for military assistance. Secretary of State Shultz opposed both; in a letter to House Republican Leader Bob Michel of Illinois he called the Pepper proposal "ill-timed" and not conducive to "the settlement we seek."

Nonetheless, after Shultz met with a group of pro-Savimbi Republican senators led by Bob Dole of Kansas, the administration soon decided to provide Savimbi effective aid, including Stingers. From 1986 to 1990, both the Reagan and Bush administrations left it largely to bipartisan task forces in the Senate and House—and particularly to two Democrats, Senator Dennis DeConcini of Arizona and Representative Dave McCurdy of Oklahoma—to beat back attempts by their colleagues to condition or cut Savimbi's aid.

Solarz Energy in Cambodia

An influential Democrat, New York Representative Stephen Solarz, is widely credited as the architect of U.S. policy toward Cambodia since 1985, when, unprompted by the Reagan administration, he introduced an amendment that authorized the government to give aid to two anti-Communist resistance groups opposing the Vietnamese-backed Cambodian regime: the Khmer People's National Liberation Front and the Sihanouk National Army. Solarz argued that aid would put pressure on Phnom Penh while strengthening the anti-Communist alliance against the forces of a third opposition group, the genocidal Khmer Rouge backed by China.

As a result of Solarz's political support, the Reagan and Bush administrations provided enhanced humanitarian assistance, both overtly and covertly, to the two groups, although military aid was never provided. As Vietnam began withdrawing its forces from Cambodia in 1989, the administration came under pressure by con-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

gressional critics to abandon the resistance and acquiesce to the regime in Phnom Penh. In the face of this, Solarz remained a more articulate proponent of the administration's policy than the administration itself. In 1989 Solarz shepherded through the House an authorization for military aid, which was later scotched by a liberal coalition in the Senate.

In 1990 the administration tilted toward Phnom Penh and away from the non-Communist resistance. Solarz helped guide through the House a $20-million appropriation for the resistance, $7 million of which the administration was to release that October. The skittish State Department, perhaps concerned about strictures placed on the aid in the Senate, which prohibited all covert assistance, refused to release the funds until four House Republicans who support the resistance forces, Helen Bentley of Maryland, Bill McCollum of Florida, Robert Dornan of California, and Don Ritter of Pennsylvania, wrote an insistent April 17, 1991, letter to Assistant Secretary Richard Solomon. The aid was released the next day.

Unfortunately, the puppet regime is still in power, and is forming a coalition government that includes the dreaded Khmer Rouge. The non-Communist forces remain weak, perhaps in part because not enough congressional conservatives adopted Cambodia as a cause.

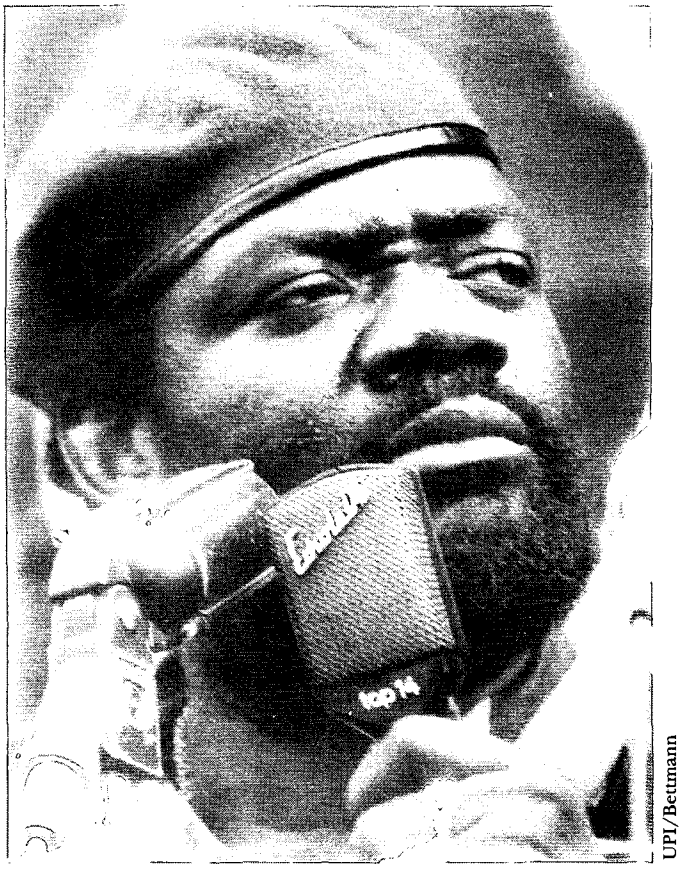
Scuttling SALT II

Another area of policy where Congress has contributed greatly to America's national security is arms control. The legally mandated objective for all American arms control agreements is the Jackson Amendment to the congressional resolution that ratified SALT I, which states that "equal levels of forces" should result from any post-1972 U.S.–Soviet arms-control agreement. Conservatives in both parties used this issue among others to doom President Carter's SALT II accord in 1980.

Yet even though Reagan had campaigned against SALT II as "illegal," once he took office the administration adopted a policy of adherence to the unratified accord and signed secret executive agreements with the Soviets to this effect. Conservatives in Congress mounted a campaign to expose Soviet violations of both SALT I and SALT II. They also drew public attention to the Soviet radar system at Krasnoyarsk, a violation of the ABM Treaty, long before the Reagan administration was willing to make the charge.

In 1983, a watershed amendment by Senator James McClure of Idaho, fought tooth and nail by the State Department, forced the executive to report annually to Congress on Soviet violations of arms-control treaties, giving legislators access to classified information that was essential in proving Soviet cheating. By 1986, deluged with letters from a treaty-blocking group of 34 senators and with strategic leaks in the press on unacknowledged Soviet violations, President Reagan renounced the policy of compliance with SALT II.

The executive's emphasis on verifiability in the INF and START accords was a direct result of this Senate pressure, especially from Jesse Helms of North Carolina and David Sullivan, a long-time arms-control staffer to conservative Republicans. Their critique of Soviet violations has been vindicated in the START accord by the Soviets' own data, which shows that two Soviet ICBM systems were in violation of both SALT I and SALT II all along. In recent years, Helms has been a virtual one-man truth squad, raising important concerns about both START and the treaty on Conventional Forces in Europe—such as whether Mikhail Gorbachev was even an appropriate partner for such discussions.



UPI/Bettmann

Angola's freedom fighter Jonas Savimbi didn't get effective military aid until congressional pressure forced the Reagan administration to let it through.

Correcting Bush's Tilt to Gorbachev

During the Bush years, it is difficult to find one major issue of foreign policy that has not benefitted from the influence of Congress. Congress has been on the right track, and the Bush administration has been behind the curve, half-hearted, or just plain wrong, on U.S.–Soviet affairs, the strategic defense initiative, China, the buildup to and aftermath of the Persian Gulf War, and U.S. relations with Israel.

Congress seriously began to question the Bush administration's pro-Gorbachev tilt last year, when it criticized Bush's weak response to the Soviet Union's violent crackdown in Lithuania and the neighboring Baltic states. Both houses passed resolutions, sponsored by leading Democrats, condemning the suppression and calling on Bush to consider cutting off economic aid to the Soviets until troops were withdrawn from the Baltics. The State Department, however, warned against any such tough moves. (This was a replay of what had happened in the spring of 1990, when the Senate called upon Bush

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to tie a pending trade agreement to Soviet actions in Lithuania shortly after Moscow imposed an oil embargo. Bush went ahead with the pact anyway.)

When Boris Yeltsin, the newly elected Russian president, visited Washington in June 1991, Congress accorded him treatment befitting a head of state, a far warmer reception than he received from the administration. Bush had previously refused even to meet with Yeltsin, although in June Bush received Yeltsin in a low-key fashion at the White House. Senate Minority Leader Bob Dole of Kansas, who met Yeltsin at the airport, where only a deputy assistant secretary of state was representing the administration, urged Yeltsin to tell Bush that lawmakers "want to engage in more direct contact with the republics rather than with the central government." Bush's answer was to fly to Kiev and rebuke the Ukrainians for seeking independence. It was not until late November that the administration looked favorably on Ukrainian self-determination.

In the early summer of 1991, with the Soviet Union still intact, Congress was hostile to the notion of aid to the central government, while the administration seemed to favor it. In June, Congress passed amendments prohibiting all assistance to the Soviet government unless it negotiated independence for the Baltic states, cut defense spending, stopped aid to Cuba and North Korea, and implemented economic reforms. Senator Bill Bradley, a New Jersey Democrat, even warned that Gorbachev's demands for Western aid might be interpreted as "nuclear blackmail."

Conservatives in Congress drew attention to Soviet arms-control treaty violations long before the Reagan administration did.

In the immediate aftermath of the August coup in Moscow, the divisions between the administration and members of Congress became more apparent still. Dave McCurdy, the chairman of the House Intelligence Committee, maintained that the Gorbachev era had given way to "the Yeltsin era"—this, at a time when the White House was sticking with its pro-Gorbachev line, and unnamed White House officials were casting aspersions on the Russian Republic president.

The unraveling of the Soviet Union in late August also vindicated the long-standing congressional support of independence for the Baltic states. Bush, in an embarrassing concession to Gorbachev, did not announce U.S. recognition of Baltic independence until September 2—after more than 30 countries had already done so. Later in the month, supporters of the Baltics such as Dole put an earmark into the foreign aid bill for them—the kind of practice conservatives often criticize when used by the other side.

Breathing Life into SDI

The congressional role on strategic defense is less clear-cut; certainly SDI has had a troubled time in Congress since President Reagan first unveiled it in 1983. Between 1984 and 1990, Congress reduced presidential budget requests for SDI by a total of about 22 percent, with $31 billion requested and $24 billion appropriated.

The executive branch, however, put the wrong question to Congress. Reagan's ultimate vision was at best a long-term proposition, and opponents of strategic defenses in the military bureaucracy worked hard to foreclose nearer-term options. As Senator Malcolm Wallop of Wyoming often pointed out, Congress was asked to fund a research program into the feasibility of creating a perfect astrodome defense against ballistic missile attack rather than vote yes or no on building anti-missile weapons that could disrupt (even if they could not completely protect against) a Soviet attack.

The Reagan administration also fumbled the ball with respect to the ABM Treaty, announcing hastily and with no congressional consultations an arcane reinterpretation of the document rather than arguing against the wisdom of the treaty as it was traditionally understood. This miscalculation allowed cynical SDI opponents in Congress to win the substantive debate on procedural and semantical grounds.

In 1991, however, Congress reversed itself dramatically, taking the initiative and breathing new life into strategic defense. The action began shortly after the end of the Gulf War, where it was demonstrated that antimissile technology could be effective against Scud missiles. (The Patriot, originally designed to shoot down aircraft, was upgraded with antimissile capability in the mid-1980s by congressional advocates of strategic defenses like then-Senator Dan Quayle, despite opposition from the Pentagon and the Democratic congressional leadership.)

Fearing that the administration would squander this political capital, Republican Senators John Warner of Virginia and William Cohen of Maine issued a white paper outlining a plan for building limited ballistic missile defenses on the ground, renegotiating the ABM Treaty, which prohibits effective missile defenses, and forgoing space-based components in the initial deployment. White House National Security Adviser Brent Scowcroft, an SDI opponent, tried to sabotage the effort, but failed.

Last summer, Senate Armed Services Committee Chairman Sam Nunn of Georgia signed off on a plan similar to Warner's. Then, during committee negotiations, Wallop was able to secure a 50-percent funding boost over 1991 levels for the space-based components of a limited defense known as "Brilliant Pebbles."

As it had in 1989 and 1990, the Bush administration sat on the sidelines through all of this. One senior Pentagon official told me after the Senate plan passed that it moved the United States closer to building defenses than the administration ever would have, since it set a timetable for deploying a ground-based system (by

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

1996) and set a deadline for renegotiation of the ABM Treaty. The Bush plan, called Global Protection Against Limited Strikes (GPALS), did neither. In October, Nunn was able to preserve the Senate's plan in conference with the House, where reception to it was less hostile than anticipated.

Tiananmen Showdown

Congress has on several occasions stopped presidents from making excessive concessions to Communist China. In 1979, it balked at President Carter's termination of U.S. legal authority to sell weapons and defense technology to Taiwan. An amendment to the Taiwan Relations Act by conservative senators required that Taiwan's self-sufficiency in weapons be maintained forever, providing for Taiwan's future survival.

More recently, the Bush administration and Congress have been divided over most-favored-nation trading status for China in the wake of the massacre in Tiananmen Square of students seeking democracy. The administration has continued to ask Congress for extensions of MFN status for China—with no conditions attached—as part of its policy of business as usual with Beijing. The administration and its supporters have sought to portray the debate as about means, not ends. After all, it is argued, everyone wants to see reform in China, the question is only how best the United States can bring its influence to bear.

Congress is more attuned to the moral dimensions of the issue. "There is nothing moral about upholding power that is misused," said Senate Majority Leader George Mitchell of Maine. In July 1991, the House voted 313-112 to extend MFN status for China in 1992, but only if the president certifies that China has released and accounted for all prisoners from the Tiananmen Square demonstrations, ended the practice of coercive abortion, stopped assisting other nations in acquiring nuclear weapons, and ended human rights abuses. The amendment was sponsored by Representative Nancy Pelosi, a California Democrat, and drew support from liberal Democrats and conservative Republicans alike. Mitchell proposed a similar move in the Senate that also contains a provision that would revoke MFN status if China provides medium-range missiles or nuclear weapons technology to either Syria or Libya. The administration opposes the measures and a veto threat lingers at this writing.

Senators Joseph Biden of Delaware and Hatch put a provision into the State Department's authorization bill this year establishing a commission to draw up plans for Radio Free China. In addition, two Republican members of the House, John Porter and Helen Bentley, have introduced similar legislation to disseminate through our international broadcasting services information on democracy and free markets to China, North Korea, Vietnam, Cambodia, Laos, and Burma. The State Department's Richard Solomon has turned a cold shoulder toward these efforts.

Protecting the Kurds

Even the Persian Gulf War, which the president and his advisers consider their strong suit going into the 1992 election campaign, found Congress doing more good than harm. Before the war, the record of Congress vis-à-vis Iraq, while hardly a model of firmness, was less appeasing than that of either the Reagan or Bush administrations.

Reuters/Bettmann

Congress has stopped presidents from Carter to Bush from making excessive concessions to Communist China.

In 1983 and again in 1984, in reauthorizing the Export Administration Act, Congress attempted to get the administration to put Iraq back on the State Department's list of countries that support terrorism. When the act was finally passed in 1985, the administration lobbied successfully against the provision in the House–Senate conference. In 1988, both houses passed amendments to impose sanctions on Iraq after it came to light that Saddam Hussein had used chemical weapons against the Kurds (although neither became law).

In 1989, over administration opposition Congress banned Export-Import Bank financing for exports to Iraq. A year later, following Saddam's threat to "burn up half of Israel," the Senate adopted sanctions against countries using chemical weapons; in November 1990, Bush pocket-vetoed the measure. Finally, six days before Iraq invaded Kuwait, both houses agreed, in the face of a presidential veto threat, to cut off Iraq's agricultural credits.

Once troops were deployed, congressional pressure helped impress upon an aloof White House the need to advance publicly a convincing rationale for the action. Senator Wallop was the first to call for a congressional authorization for the war. On the other side of the aisle, Representative Solarz was indispensable in patching together a bipartisan coalition for military action in the House. In the end, Bush backed off his prior position that no congressional authorization would be sought, and Congress did the right thing—despite the opposition of 80 percent of Senate Democrats. Putting war authorization to an up-or-down vote forced Congress to take partial responsibility for the outcome, a respon-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Associated Press Photo

The State Department has fought congressional restrictions on negotiations with the PLO until it stops calling for the destruction of Israel.

sibility that it too often has tried to avoid.

On the battlefield, the benefit of the Goldwater–Nichols Act of 1986, which streamlined the military chain-of-command over Pentagon opposition, was indisputable. After Iraq withdrew from Kuwait, and Saddam attacked the Kurds and Shiite Moslems who were rising up against him, Congress made its presence strongly felt once again. "We're not going to get sucked into this by sending precious American lives into this battle," Bush declared in early April 1991. "We have fulfilled our obligations."

What happened next was a classic instance of domestic political pressure impinging on foreign policy. A confluence of extensive media coverage, a bipartisan outcry in Congress, and a widely publicized fact-finding mission by Peter Galbraith, a Democratic staffer on the Senate Foreign Relations Committee, led the administration to reverse its policy and agree to protect the refugees (something Bush indicated he would do before the massacre). Members of Congress attacked Bush, arguing that he should have gone further and removed Saddam from power.

No Sir, Yasir

Since the war, U.S. relations with Israel have increasingly become a point of friction between the administration and supporters of Israel in Congress, who are concerned that the administration's design for peace in the Middle East is insensitive to Israel's security interests.

Of course, the Arabist executive branch bureaucracy has long been out of step with the strong pro-Israel views of the American public, which are more accurately reflected in Congress. For example, in May 1991 the State Department fought an amendment to the foreign aid authorization in the House that states that no U.S. official "shall negotiate with the PLO or representative thereof" until the group amends its charter calling for Israel's destruction.

But something more is going on at the highest levels of the Bush administration, where pressure on democratic Israel, and appeasement of Arab dictators, seems to be the order of the day. Secretary of State James Baker fanned the flames last May when he declared that the administration considered new Israeli settlements in the so-called occupied territories to be the biggest "obstacle to peace" in the region.

Thus, while the administration's official position was that a halt in Israeli settlements would not be a precondition for any peace negotiations, Baker seemed to be implying the opposite. Israel's supporters on Capitol Hill maintained that there should be no such linkage. GOP Senator Alfonse D'Amato of New York observed that Baker seemed to be giving the Arabs reasons not to negotiate; and Senator Bob Kasten of Wisconsin, another

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

AP/Wide World Photos

Stingers for the mujahideen were opposed by the State Department, Joint Chiefs of Staff, National Security Council, and CIA bureaucracies.

Republican, said the settlements were a matter to be addressed "by the democratically elected government of Israel."

Tensions were further exacerbated in September, when the issue was raised of Israel's request for $10 billion in loan guarantees to help it absorb the one million Soviet immigrants expected to arrive in the country over the next five years. Although even many Israel supporters in Congress backed Bush's decision to ask Congress to delay consideration of the loan guarantees for 120 days, members of Congress were right to criticize the tenor of Bush's remarks about pro-Israel lobbyists.

They were also right to remain wary of the administration's intentions as the peace conference got under way this fall. After all, the issue of settlements can't be considered in a vacuum. The Bush administration's attitude toward them seemed to stack the deck against Israel in advance of the negotiations by suggesting it would favor a Mideast peace agreement in which Israel gave up control of the West Bank. A joint administration of the land between Israel and the Arabs, of course, would not necessarily require an end to the settlements.

Barometer of Public Opinion

If conservatives are to develop a consistent view of executive–legislative relations in foreign policy, they either have to condemn congressional foreign-policy intervention from the Right just as vociferously as they do when the intervention comes from the Left; or, they must find more room for a congressional role in foreign policy than their current constitutional, procedural, and political interpretations seem to allow.

In practice, the theoretical conservative bias for a strong president gives the unelected executive bureaucracy an unintended opportunity to pursue its own objectives without democratic accountability. It also deprives right-thinking officials in the executive branch of a vital lever in their internal battles: the ability to go to the Hill for support.

Conservatives have nothing to fear in the development of a more openly political, democratic environment for discussing and setting the nation's foreign policy. With the exception again of aid to the Nicaraguan Contras, every recent exertion of American power, from the invasion of Grenada, to the bombing of Libya, to the Persian Gulf War was overwhelmingly popular with the public, and Congress is, at the end of the day, a fairly reliable barometer of public opinion.

Conversely, executive foreign-policy initiatives have gained more public support when they have been debated and approved in Congress, a function of Congress that conservatives ought not slight. Of course, most supporters of the Nicaraguan Contras still maintain today that that battle, properly fought, was winnable in Congress. Assistant Secretary of State Elliott Abrams' legislative victory in 1986 is a testament to this view. The administration never recovered from the subsequent Iran-Contra revelations. Congressional Democrats, meanwhile, brokered policy in the region in secret negotiations with the Sandinistas, to the great dismay of the administration and conservative Contra supporters. Even this incursion into foreign policy, however, is best criticized for *what* was done, rather than for *how* it was done.

The biggest fear for conservatives should not be of congressional overreaching in foreign policy. It should be that their own political leaders and opinion-setters will continue to sit on their hands, blithely reciting passages from *The Federalist* in deference to executive power, while ceding the foreign-policy field to the bureaucrats and the congressional Left. It would be far more effective for conservatives to get in the trenches and throw more grenades. ☎

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

RETURN OF THE "R" WORD

The Regulatory Assault on the Economy

MURRAY WEIDENBAUM

It took a lot of stupid government actions to produce a sluggish American economy—but the tax increases and archaic banking standards introduced in late 1990 as the economy was sliding into recession are not the only villains. Those who wonder why the economy has not responded more swiftly to successive doses of monetary stimulus should consider a development overlooked by most analysts of the macro-economy: any U.S. company brave enough to consider embarking on a new capital investment faces a thicket of obstacles in the form of expanded environmental and other social regulations.

At first glance, the regulation of business seems to be a cheap way of achieving national objectives. It appears to cost the government very little and does not seem to be much of a burden on the public. Hence, there is no public pressure to relate its costs and benefits. But the public does not escape paying. Every time a government agency attempts to safeguard the environment, it imposes on business a more expensive method of production. The cost of those products goes up.

Regulatory Dust Storm

Environmental regulations alone cost each family more than $1,000 a year. Congress would never pass the $110-billion hidden budget for environment compliance. But government agencies do not worry about the expense. Those compliance costs only show up in private budgets.

The direct costs, large as they are, are not the most serious consequences of rapidly expanding regulation. Even more costly is the enormous uncertainty that follows enactment of each regulatory statute, as the resultant regulations await the inevitable rounds of court challenges. Meanwhile, businesses considering building new factories or expanding and modernizing existing production facilities do not know whether they will meet the standards that will be in force after the construction is completed. The sensible direction all too often is to delay the capital investment until the regulatory dust settles—or to relocate to a more benign regulatory environment overseas.

If this sounds somewhat alarmist, just examine the new Clean Air Act that Congress passed late in 1990. This is easier said than done, because the new law comes to nearly 800 pages, compared with fewer than 50 pages for the previous Clean Air Act. To help in this task, the Environmental Protection Agency devoted the January/February 1991 issue of the *EPA Journal* to the new statute. Here are a few revealing samples from the EPA's own publication:

1) The 1990 law contains "massive" new regulatory programs, including acid rain controls, a new air toxics program, and a comprehensive program for ozone and carbon monoxide.

2) Operating permits are required for all major sources, but permits "can never replace the SIP [state implementation plan] system." The typical state implementation plan "may be a file cabinet full of rules, amendments to rules, detailed technical tables, and analytical and monitoring methods. A SIP is also a hodgepodge of different sorts of rules."

"Administrative Nightmare"

3) "Despite the complexity, rarely is a SIP indexed or organized so that a lay person can navigate through it. Often only a handful of people in the state regulatory agency and the EPA regional office even know where the SIP is, much less what is in it."

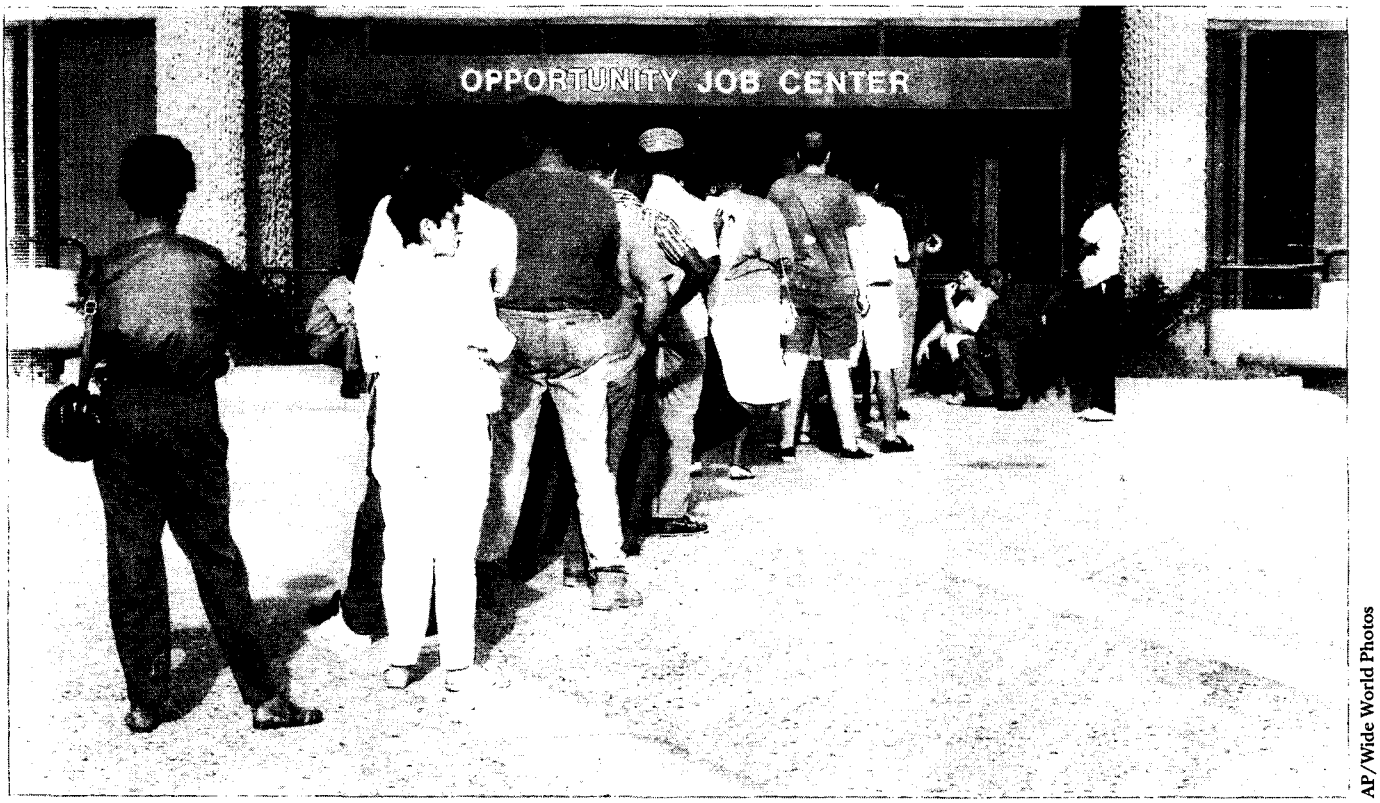
4) Former Deputy Administrator of EPA John Quarles describes issuing the new air permits as "a huge administrative challenge. It may become an administrative nightmare."

5) "The regulatory officials will be overwhelmed by the challenge of processing permit applications for existing sources, distracting their attention from those permits which must be issued to give the green light to new projects."

6) Frank Blake, a former EPA general counsel, writes, "There is more to be commanded and controlled under this legislation than has ever been attempted before. The

MURRAY WEIDENBAUM *is director of the Center for the Study of American Business and Mallinckrodt Distinguished University Professor at Washington University in St. Louis. He was chairman of the Council of Economic Advisers from 1981 to 1982.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



AP/Wide World Photos

Cost-ineffective environmental regulations are partly to blame for the sluggishness in the economy.

legislation is an odd mixture of marketplace philosophies with standard command-and-control approaches."

Harsh Effects on Small Business

We should not overlook the disproportionately harsh effects on small business, which does not experience the usual economies of scale in complying with environmental regulations. Each small auto-body repair shop will have to spend about $100,000 for equipment to catch hydrocarbon emissions from spray paint. Furniture makers will need incinerators to burn off releases of hydrocarbons. One firm says it will have to spend more than one-fourth of its $11 million in annual sales to buy new pollution-abatement equipment.

About 150,000 small businesses will have to obtain clean air permits. Just to obtain one set of the permits will force a small company to spend between $10,000 and $15,000 to collect the data and do the paperwork. The monitoring devices needed to track emission rates will cost an additional $10,000 to $50,000.

The Pollution Prevention Act of 1990 is not as widely known as the Clean Air Act, but its effects deserve attention. The law was quietly passed in the closing hours of the last Congress. Buried in the budget reconciliation package, the act requires an annual report from each manufacturing facility with 11 or more employees that uses one or more of 300 listed chemicals. Every business, from the largest to the smallest, must report on the following:

- The quantity of each of the 300 chemicals released into the environment prior to recycling, treatment, or disposal during the year and the percentage change from the previous year.
- The amount of the chemical recycled, the percentage change from the previous year, and the recycling process used.
- The source-reduction practices used.
- The amount expected to be reported for the two calendar years following the calendar year for which the report is filed (that comes to four years of data).
- The ratio of production in the past year to production in the previous year.
- The techniques used to identify source-reduction opportunities.
- The amount of any toxic chemical released into the environment that resulted from a catastrophic event, remedial action, or any other one-time event not associated with production processes.

The budget for fiscal year 1992 finances the largest number of federal regulators ever—122,400.

- The amount of the chemical from the facility that is treated, and the percentage change from the previous year.

Ecologists should mourn for the trees that will be cut down to provide the paper for all the reports that will be prepared, in triplicate at least, under the Pollution

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Prevention Act of 1990. Meanwhile, business executives cannot overlook the fact that other social regulatory statutes enacted in 1990 will also bedevil their planning for the future.

Rising Litigiousness

The Americans with Disabilities Act (ADA) is another social statute whose title made it hard to oppose. Removal of unfair barriers to people with disabilities is surely a worthy objective. But the economic impacts—a subject that was glossed over during the congressional deliberations—are likely to be quite substantial. That will be so, at least in part, because both the law and regulations issued to date are vague. The Equal Employment Opportunity Commission (EEOC) says that it will evaluate claims on a case-by-case basis. This likely means the new law will be shaped primarily by court decisions to be made over the next several years. In the words of a Justice Department pamphlet explaining ADA, "Some litigation is inevitable."

Virtually every provision of ADA is subjective. Determining what is required to satisfy the reasonable accommodation standard will vary from situation to situation and will largely depend on the size and financial strength of the employer. The law and regulations state that they are designed to avoid imposing "undue hardship" on employers. A straightforward reading of the provisions makes it clear that, as in many other parts of ADA, the vague language will be difficult to interpret with any degree of confidence—prior to protracted adjudication.

The EEOC expects to receive 20 percent more charges of discrimination in 1992, when it begins enforcing the Americans with Disabilities Act. EEOC Chairman Evan Kemp believes that the ADA is a "more complicated act to enforce" than Title VII of the 1964 Civil Rights Act. The EEOC anticipates that a significant portion of ADA cases will require the use of medical, architectural, biotechnical, or vocational specialists.

Ecologists should mourn for all the trees that will be cut down to satisfy the Pollution Prevention Act of 1990.

In short, the regulatory policy pendulum is swinging again. The regulatory excesses of the 1970s led to the reforms of the 1980s and, in turn, they are being followed by the continued regulatory expansions of the 1990s. Ironically, while the rest of the world is moving toward smaller government, the forces for greater government intervention in the American economy have gotten their second wind.

A few numbers point up the new trend. During the 1970s, the headcount of the federal regulatory agencies rose 71 percent. During the 1980s, the number of regulators declined, from 121,700 in 1980 to 106,000 in 1989. The budget for fiscal year 1992 finances the largest number of federal regulators ever—122,400. Once again we are seeing the expanding regulatory trends of the Carter years.

The legislative victories of the environmental activists whetted their appetites. They are now gearing up for a new legislative drive that includes a revised Clean Water Act, a revised toxic wastes law (the Resource Conservation and Recovery Act, or RCRA), renewal of the Superfund statute (the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA), as well as a "toughening" of the Toxic Substances Control Act, or TOSCA.

Who's the Dirtiest of Them All?

The growing regulatory burden on business is particularly unfair because many of the worst violators of existing rules, namely federal agencies, are still going scot-free. The regulatory agencies lack the enforcement power over government bodies that they possess over the private sector. Reports of plants closing because of the high cost of meeting environmental and safety standards are common. In contrast, there is no record of a single federal facility closing down for failing to meet the requirements of social regulations.

The General Accounting Office (GAO) says, in its understated way, that the environmental performance of federal agencies "has not been exemplary." A GAO study of 72 federal facilities reported that 33 were in violation of EPA requirements; 22 had been cited for Class 1 (serious) violations. Three facilities had been out of compliance for more than three years. The Department of Defense is a major offender. It generates approximately 500,000 tons of hazardous waste a year, more than the five largest chemical companies combined. Of course, you won't find this out if you call EPA's "hotline" providing information on the worst polluters in each community. Congress has specifically exempted government agencies from this reporting requirement.

The Pentagon's inspector general estimates that the total environmental cleanup bill for the military establishment will exceed $100 billion. The cost of cleaning up the 70 nuclear plants, laboratories, and other sites of the Department of Energy is expected to be more than double the Pentagon's environmental bill.

Civilian agencies are reluctant to follow the same standards they impose on the private sector. The storm drains at one NASA facility flow into San Francisco Bay and have contaminated the bay with toxins; wildlife has died in the marshlands. Another NASA site discharges waste from its electroplating operation into the sanitary sewer system, contaminating the sewage treatment plant. (The NASA facility operates without a permit.)

The Energy Department says that "it would not be helpful" if EPA were able to collect the unprecedented $300,000 fine it levied on the department for all sorts of environmental violations. The departmental spokesman quickly added that such fines would be appropriate in the case of a private enterprise. Reluctantly, the department agreed to settle for a $100,000 fine plus spending $150,000 more on cleanup—subject to Congress ap-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

propriating the money.

To put it mildly, the federal government does not set a good example in complying with its own directives. It expects the private sector to take environmental and safety concerns far more seriously than it does itself. The late Admiral Hyman Rickover would toss out of "his" Navy yards inspectors from EPA and the Occupational Safety and Health Administration. What private company would dare to do that?

Relating Costs and Benefits

This is not a plea to oppose all efforts to provide a safer environment or a healthier workplace. Contrary to rumor, economists breathe the same air and drink the same water as real people. The challenge is how to achieve the nation's environmental and other social objectives in the most efficient manner.

As a first step, we need to improve public understanding of the new wave of government regulation. Government should not adopt the most disruptive and most costly ways of cleaning the air or the nation's rivers. After all, society's bottom line is not the impact of regulation on government or on business—but the effect on the consumer, on the citizen. It is we consumers who wind up paying the costs of regulation every time we buy a product whose price includes the rising expense of complying with an ever-widening array of governmental directives.

Regulation also generates serious side effects, such as stifling innovation. Henry Ford's Model T could not have survived today's environmental challenges. It had no pollution gear and it was dangerous. Why, you could break your arm cranking it.

We need to cool the regulatory fever by requiring government agencies, in the regulations that they do issue, to use economic incentives and to weigh more carefully the benefits they expect against the costs they impose.

Paul Portney, a senior economist at Resources for the Future, a research institute specializing in environmental analysis, estimates that the costs of the 1990 Clean Air Act will be between $29 billion and $36 billion a year. The benefits that would result, he figures, range between $6 billion and $25 billion. Thus, even if we take the very low end of Portney's cost estimates and the very high end of his benefit estimates—a most generous interpretation but a very unlikely combination—the costs of the new Clean Air Law exceed the benefits. If we take the midpoints of the cost and benefit ranges, we come up with yearly benefits of $15.5 billion, less than half the costs of $32.5 billion.

What hurts is the realization that, in many cases, more environmental cleanup could be achieved with simpler and less expensive methods than those mandated by the Congress. For example, half the pollution generated by motor vehicles is produced by less than 10 percent of the cars on the road. A $150 tuneup by a proficient mechanic can make almost any polluting vehicle—old or new, sports car or city bus—run clean.

Helping the public understand the limits of government regulation is a fundamental educational challenge. EPA is charged with administering the Clean Air Act; the Clean Water Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Noise Control Act; the Quiet Communities Act; the Safe Drinking Water Act; the Asbestos Hazard Emergency Response Act; the Medical Waste Tracking Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Marine Protection, Research, and Sanctuaries Act; and the Insecticide, Fungicide, and Rodenticide Act.

Three Proposals

Even if EPA were staffed entirely with Newtons and Einsteins, it could not meet its present statutory obligations, much less the additional workload that Congress is anxious to impose on it. We need to set in motion the intellectual pressures for yet another swing in the policy pendulum—to less regulation of private enterprise, to restraint rather than enthusiasm in wielding governmental power.

In that vein, Congress should start a new trend toward regulatory reasonableness by adopting three simple but powerful changes.

1) *In rewriting the Clean Water Act, shift from arbitrary standards to pollution fees.* As Germany has demonstrated for decades, such fees or taxes are not licenses to pollute. Rather, they provide a strong incentive to shift to less polluting ways of production—and consumption.

Environmental cleanup could be achieved with simpler and less expensive methods than those mandated by Congress.

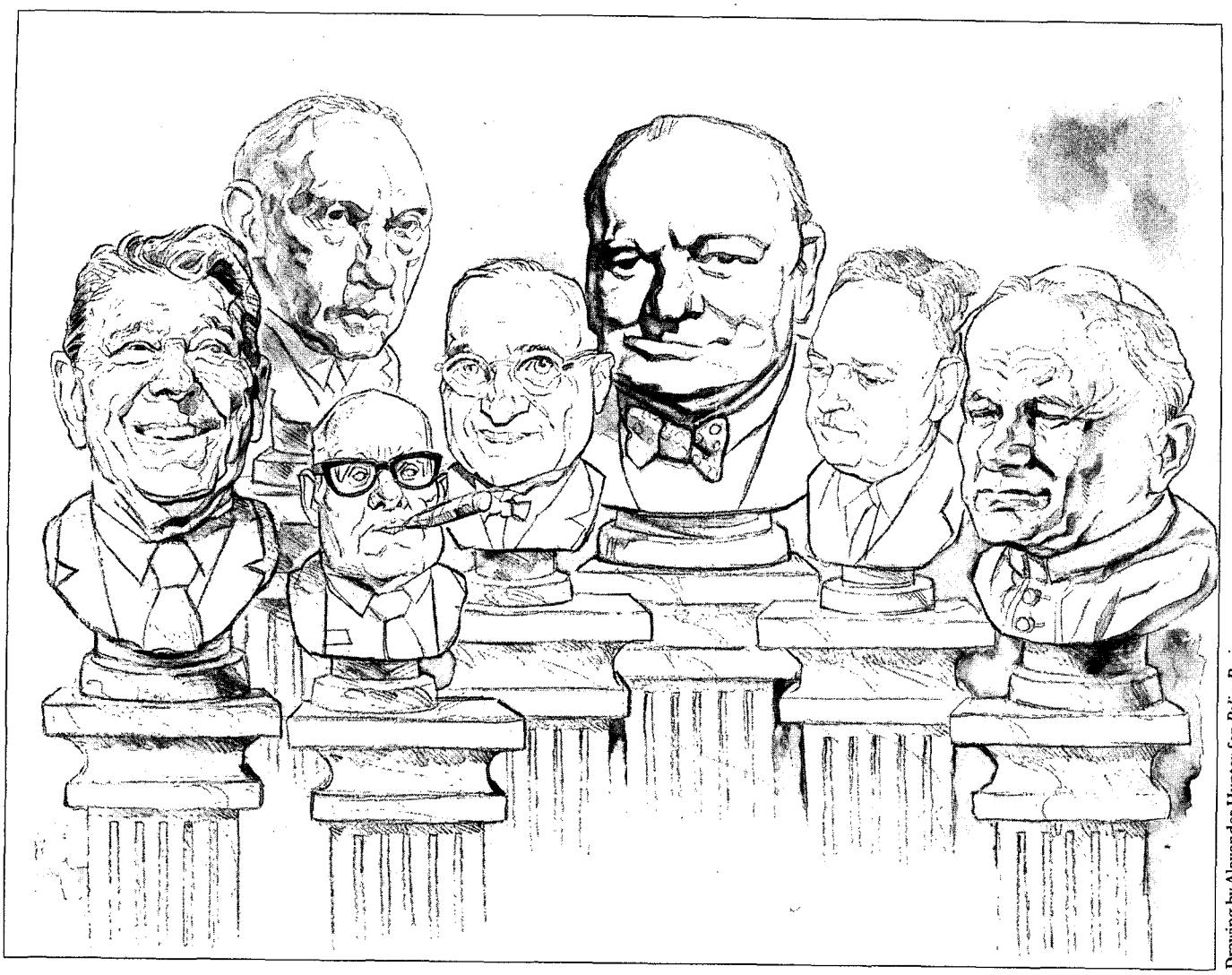
2) *Follow the same tax-in-lieu-of-standards approach by quickly amending the Clean Air Act before it takes full effect.* Rescind the arbitrary requirement for clean air permits, which is bound to generate one of the worst bureaucratic snafus of the decade. The overwhelming task of issuing thousands upon thousands of new permits and reviewing changes in existing permits is likely to regulate American industry into slow motion.

3) *Subject all government facilities to the full array of environmental regulations and requirements.* A ton of federal pollution is just as undesirable as a ton of business pollution. What is sauce for the private-sector goose is sauce for the public-sector gander!

I conclude with a medical analogy: regulation is a powerful medicine. The congressional doctor should prescribe it in small doses with full regard to all the adverse side-effects on employment, innovation, productivity, and competitiveness. Regulation is also an expensive medicine and the consumer winds up paying for it. So do the people who aren't hired by the businesses that find it much harder to start up or expand.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Cold War's Magnificent Seven



Drawing by Alexander Hunter for *Policy Review*

Winston Churchill: Herald
by Matthew Spalding

Harry S. Truman: Architect
by Frank Gregorsky

Konrad Adenauer: Front Line of Freedom
by Richard V. Allen

George Meany: Worker of the World
by Arnold Beichman

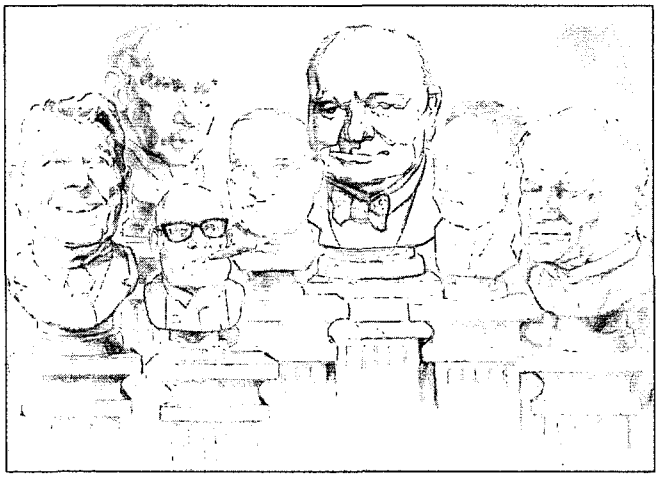
Whittaker Chambers: Witness
by Ralph de Toledano

Pope John Paul II: Awakener of the East
by Fr. Robert A. Sirico

Ronald Reagan: Terminator
by Adam Meyerson

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The victory of the Free World in the Cold War ranks with the victory of the Allies in World War II, the landing on the moon, and the spectacular advances in health and prosperity around most of the world as the most important achievement of mankind in this century. There were countless heroes in the defeat of Communism—among them the people of the former Soviet empire whose indomitable spirit ultimately triumphed over their enslavers, and the taxpayers of the Western alliance who spent trillions of dollars over more than 40 years to protect their countries and civilization from the Soviet threat. The West was also blessed by extraordinary leaders and moral voices who defined the nature of the conflict, galvanized the popular will to resist Communism, and created the institutions that led to eventual victory. *Policy Review* pays tribute here to seven of those leaders whose words and deeds were essential for the wonderful events of the last few years.



WINSTON CHURCHILL

Herald

MATTHEW SPALDING

In 1940, during the darkest hours of World War II, Prime Minister Winston Churchill declared that he could offer Britain and the Free World nothing but "blood, toil, tears, and sweat." His thoughts were dominated by the immediate task of defeating Nazi Germany and assuring the survival of Great Britain. This necessity placed a high priority on creating and maintaining a coalition with America and the Soviet Union that could ensure the Third Reich's ultimate downfall. Only after the Allies had turned the tide of the war could he focus on future enemies.

Soviet behavior in Poland, Bulgaria, and Romania in the spring of 1944 led Churchill to conclude that the most serious threat to Britain and Europe after the war would be from Communist Russia. Where feasible he attempted to adjust British and American strategy to reflect this concern, most powerfully by advocating operations in the eastern Mediterranean to check the Soviets in the Balkans. To no avail, he urged General Eisenhower to meet the Soviets as far east of Berlin as possible. By the end of the war—with all of Europe devastated and in ruins, the British and American victors exhausted and war-weary, and the Red Army controlling all of Eastern and most of Central Europe—the problems of a "blaring and crashing war" gave way to those of a "grinding and gnawing peace."

Iron Curtain

Defeated in the British election of 1945, Churchill could not prevent the tragedy of the impending Cold War. Soviet behavior in late 1945 and early 1946 reinforced his opinion that the wartime alliance with the Soviets could not be sustained. With the consent of President Truman, Secretary of State James F. Byrnes, and Fleet Admiral William D. Leahy, Churchill once again played the role of herald. He presented the facts as he saw them, most forcefully and eloquently in March 1946 at Fulton, Missouri. Speaking only two weeks after the arrival in Washington of the secret "long telegram" of George Kennan, the American *chargé d'affaires* in Moscow, and a full year before the U.S. administration took public action in the form of the Truman Doctrine, Churchill described the breakup of the wartime coalition and proclaimed the beginning of a new conflict:

> From Stettin in the Baltic to Trieste in the Adriatic, an Iron Curtain has descended across the Continent. Behind that line lie all the capitals of the ancient states of Central and Eastern Europe. Warsaw, Berlin, Prague, Vienna, Budapest, Belgrade, Bucharest, and Sofia, all these famous cities and the populations around them lie in what I must call the Soviet sphere....

Churchill was compelled to agree that the Soviet Union would be the principal continental power after the war, but was not willing to accede to the partitioning and Communization of half of Europe. That was the one thing—to turn a Churchillian phrase—up with which he would not put. It was he, after all, who vainly sought to "strangle the infant Bolshevism in its cradle" in 1920. Even at the height of his wartime friendship with Joseph Stalin, Churchill saw no fundamental distinction between the principles of Nazism and those of Communism. Now, not only were these great ancient states under the influence and control of Moscow, with police governments prevailing in nearly all cases, but the Communist parties being raised to power were everywhere seeking totalitarian control. Whether there were limits to aggression by the Stalinist regime remained unclear.

Sinews of Peace

We must remember that Churchill entitled his address at Fulton "The Sinews of Peace." He did not believe that another world war was either imminent or inevitable. What the Soviets desired, he warned us, were "the fruits of war and the indefinite expansion of their power and doctrines." Nor did he believe that force and war were the mechanisms to reform the Soviet Union. This did

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

not mean that the West was to remain passive, for Churchill always maintained that the Free World must actively respond in ways that would challenge and confront the ideas, policies, and actions of the Communist state. The cornerstone of this response was a special relationship between Britain and the United States, the two major democratic allies of the war. To this was to be added a strong and unified Europe, bringing together all the great democracies of the West. As there was nothing that the Soviets admired more than strength and respected less than weakness—especially military weakness—the policy of the West would be to promote peace, not through appeasement and weakness, but through weapons and strength.

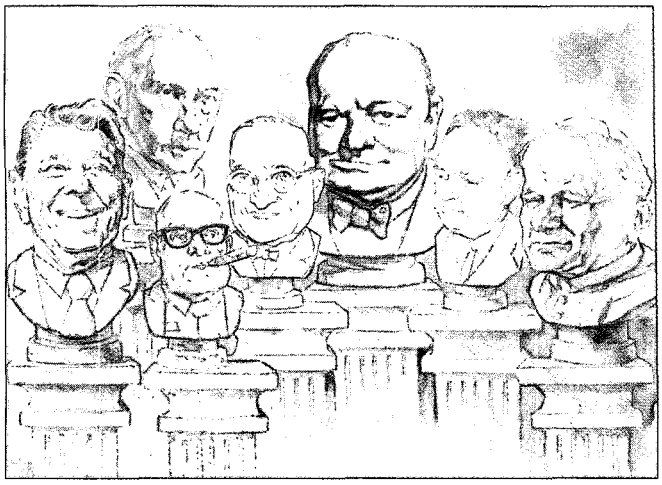
After his defeat in 1945 and until his return to the prime ministership in 1951, Churchill was Leader of the Opposition in Parliament. Even out of office, he helped to define the character of the West's response to the Soviet threat and to shape what would become the security system of the Western alliance. He called for a United Nations peacekeeping force, a Western monopoly on nuclear power, and a united Europe based on a partnership between France and a reconstructed Germany. He helped articulate the major pillars of the West's Cold-War strategy from the Truman Doctrine and the Marshall Plan to the creation of the Western Union and the Council of Europe. His vision of a strategic alliance between America, Britain, and Europe was fulfilled with the North Atlantic Treaty in 1949. As prime minister in the 1950s, he was the major force behind "The Global Strategy Paper" of 1952 and the 1954 Defense White Paper stressing the crucial role nuclear weapons would play in British and American grand strategy.

Arsenal of Democracy

Churchill maintained that the Cold War could be won only if the West was morally as well as militarily prepared, and that the greatest weapons in the West's arsenal—the foundation of its strength and the source of its courage—were its principles. The democracies of the Free World, Churchill insisted at Fulton, "must never cease to proclaim in fearless tones the great principles of freedom and the rights of man which are the joint inheritance of the English-speaking world," from the Magna Carta in England to the Declaration of Independence in America. He proposed an armed union of like-minded peoples in opposition to those—whether they were fascists, Communists, or socialists—who sought to deny man's intellectual and political freedom.

It is no coincidence that the United States and Great Britain have remained stalwart allies since the close of World War II. This is because they share traditions and principles that transcend mere national interest to form the foundation of Western civilization.

In early 1945, Churchill was asked about his policy toward the newly liberated countries of Europe, and he responded: "Here is the principle. I will state it in the broadest and most familiar terms: government of the people, by the people, and for the people, set up on the basis of election by free and universal suffrage, with secrecy of ballot and no intimidation....That is our only aim, our only interest, and our only care." This aim eluded us in half of Europe after World War II. Today the West has another chance to make good the promise of freedom.



HARRY S. TRUMAN

Containment's Architect

FRANK GREGORSKY

President George McGovern? The peace-at-any-price senator lost 49 states in 1972, but his inspiration and forerunner Henry Wallace, vice president during World War II and Franklin Roosevelt's third term, nearly made it to the White House. A scant 11 weeks after Wallace turned over the vice-presidency to Harry Truman, President Roosevelt died. Had an ailing and distracted FDR not allowed the 1944 Democratic convention to replace Wallace with Truman, the Free World would have lost the Cold War before it started.

From 1945 to 1949 Wallace crusaded against NATO and military aid to non-democratic allies, and for world disarmament. In short, he fought the entire "containment" strategy put together by the Truman administration. When Truman crushed Wallace's third-party drive against him in 1948, the peace-at-any-price tendency within Democratic liberalism was discredited for 20 years. Thus, for domestic political leadership, as well as innovation in building the postwar institutions of the Free World, Harry S. Truman is a Cold War hero.

Isolationism's Enemy

American conservatives had no affection for Truman at the time. They slammed him for "losing" Mainland China to Mao's gangsters, for the "no-win" refusal to conquer North Korea, and for his press-conference defense of Alger Hiss. Truman's Republican congressional opponents were one day superhawkish, the next day isolationist. Without his prodding, they never would have passed NATO or the Marshall Plan. But, after Dwight Eisenhower defeated their leader, Ohio Senator Robert Taft, for the 1952 GOP nomination, anti-Soviet

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

containment became bipartisan orthodoxy. All of Truman's successors in the presidency except Jimmy Carter followed the containment strategy that Truman so skillfully developed.

Truman made nine important contributions to eventual Cold War victory.

1) **Quickly defeating Japan** (August 1945). FDR had given away Eastern Europe at Yalta to secure Soviet help in liberating Japan. That help turned out not to be needed, as Truman, by using the atomic bomb, defeated Japan without a bloody U.S. invasion or Soviet seizure of Hokkaido. Japan has since been one of America's most important Cold War allies.

2) **Forcing the Soviets out of Iran** (1946). Under a 1942 agreement with Iran, British, Soviet, and American troops came in to protect its oil from the Nazis—except that, when the war ended, the Soviets refused to leave. They tried instead to annex the border province of Azerbaijan. Two months of United Nations fireworks led, in March 1946, to a blunt private message from Truman to Stalin; Soviet forces left Iran that spring.

3) **Updating the Monroe Doctrine** (1947). The Organization of American States, created by the Rio Pact, which Truman helped negotiate, was passed 72 to 1 by the U.S. Senate.

4) **Launching the Truman Doctrine** (1947). As Soviet troops menaced Turkey, and the exhausted Brits abandoned a Greek monarchy beset by Red insurrection, Truman asked the Republican 80th Congress for $400 million to help two undemocratic states. "Foreign aid" and "taking sides" were still vaguely un-American. Yet Senate opposition ultimately totalled only 7 Democrats and 16 Republicans; in the House, only 13 Democrats and 93 Republicans (mostly from the Midwest) voted no.

5) The **Marshall Plan**, Truman's massive aid program, reinforced European policies of tax reduction, deregulation, and sound money; Truman's team also avoided a 1920s-style reparations merry-go-round. By 1949, all danger of famine was gone, Communist Party gains had been reversed in Italy and France, and West Germany had been secured for freedom.

6) The **Berlin Airlift** delivered, over 15 months, 1.8 million tons of food, coal, and medicine to besieged West Berliners. Joseph Stalin called off his blockade, and two million non-Communist Germans were kept free, once more without war.

7) **NATO**, during 1949, proved Truman's hardest sell yet. America's first mutual-defense pact outside this hemisphere since 1778 (when the colonies aligned with royalist France) outraged Senator Taft; he warned it "might become an incitement to war" and "make permanent the division of the world into two armed camps." But only a dozen GOP senators joined Taft's "nay" vote.

8) **Saving South Korea** (1950–1953). Five-and-a-half months after Secretary of State Dean Acheson put South Korea outside the Free World's defense perimeter, the Communist North attacked. So began Truman's most unpopular Cold War campaign—the only one that would *not* be achieved without war. Peace waited for successor Eisenhower to pass word to Kim Il-Sung that tactical atomic weapons were a live American option.

9) **Institutionalization**. Ably assisted by George Marshall, Dean Acheson, Robert Lovett, and others, Truman hammered out a Cold War infrastructure. After shrinking drastically during 1946–1947, Pentagon spending tripled during 1950–1952; the old OSS became the CIA, flanked by the DIA. Alliances were deepened: Greece and Turkey became part of NATO in 1951; ANZUS linked us with Australia and New Zealand the year after.

GOP Criticism

This massive legacy felt like chaos while it was being built. In 1946, Senator J. William Fulbright urged President Truman to resign. Nomination for a full term in 1948 would have been denied had the beloved "Ike" accepted overtures to run as a Democrat. Truman's approval rating gyrated much like biotech stock prices do now. Desperation drove the "give 'em hell" upset of Thomas E. Dewey in 1948, in the *only* election where President Truman bested the GOP. Otherwise 1946, 1950, and 1952 were strong Republican years, with the party seizing both houses of Congress in 1946 and again in 1952.

Pearl Harbor had made Republicans internationalists "for the duration." With Hitler and Tojo gone, they hoped to demobilize the Army, deregulate America, and depart Europe. At the same time, GOP policy-makers had no Wallace/McGovern-style blindness toward the Soviet Union. They liked China's Chiang Kai-shek, and blasted Secretary of State Marshall for cutting aid and advocating coalition government with Mao Zedong.

The GOP's greatest criticism was the least defensible: savaging Truman for sacking Douglas MacArthur as Korean Commander. (The mercurial, insubordinate "Mac" deserved it: in 1950, he had free tactical rein, assured Truman the Red Chinese army would not fight for North Korea, and came unglued when it did, calling for the bombing and blockade of China.)

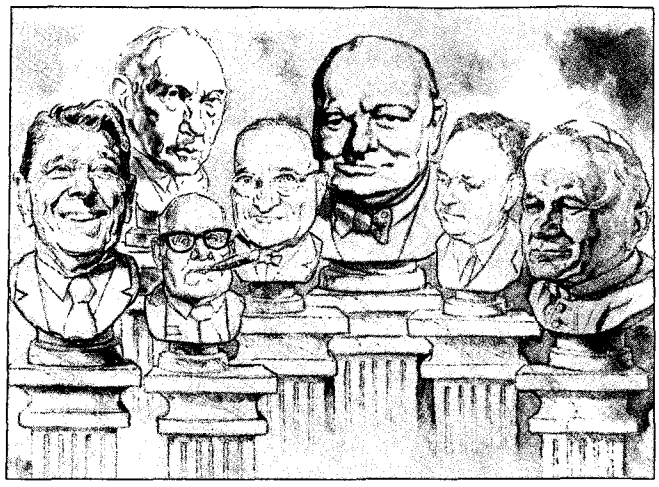
But Truman had a few good Republican men, among them Michigan Senator Arthur Vandenberg, effectively a GOP secretary of state while Taft dominated the party's domestic policy. Vandenberg midwifed the Truman Doctrine by advising this course on aid to Greece and Turkey: "Mr. President, if that's what you want, make a personal appearance before the Congress and scare hell out of the country." He did, and it worked. Vandenberg's death from cancer in 1951 was a sad day for Cold War bipartisanship.

Wallace's Confession

One month after the Cuban missile crisis, at a reunion dinner, Henry Wallace told Truman he was right about Korea, and about Russia too. Makes you wonder: Will McGovern, Carter, Mondale, or Dukakis ever admit that President Reagan was right about military strength, SDI, or Central America? While we wait, and celebrate Communism's collapse, cast a kind thought backward to the resilient, creative Democratic president who received radio endorsements from a Hollywood actor. (The year was 1948, the actor Ronald Reagan.)

Harry Truman made the big decisions right, and thank God the buck ended up on his desk. If the honest but deluded Wallace had become president on April 12, 1945, we probably wouldn't be celebrating today.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



KONRAD ADENAUER

Front Line of Freedom

RICHARD V. ALLEN

Konrad Adenauer, whose life spanned from Bismarck to Lyndon Johnson, rightfully claims a position among the heroes who created the conditions for ending the Cold War. Out of the ashes of defeat and in contrast to the aftermath of World War I, he built a strongly democratic, unresentful Germany that made common cause with its former enemies in the West as it firmly stood up to Soviet intimidation on the front lines of Central Europe.

Adenauer was a master political strategist whose skills were honed over decades of participation in his nation's political process. From his early days as deputy mayor of Cologne in 1906, he was firmly determined to promote democracy and the rule of law. His fundamental convictions reinforced by arrest, detention, and persecution by the Nazis, Adenauer emerged from World War II persuaded that the future of Germany could be assured only within the framework of close cooperation and alliance with the West.

An architect of Germany's 1949 constitution, the Basic Law, Adenauer logically became that year (by a one-vote majority) the first German postwar federal chancellor. With Germany utterly defeated and exhausted by the war, it was Adenauer's good fortune to take the reins of leadership under the benevolent and supportive three-power Allied occupation forces of the Western Zone. While the Soviets imposed a brutal and oppressive regime on the Eastern Zone, Washington, London, and Paris understood, as did Adenauer, that historical necessity dictated the rebirth of a strong and dynamic German nation firmly embedded in the constellation of Western democracy.

Visionary of Europe

From the outset, the Kremlin sought to intimidate and harass the Western Zone, hoping to neutralize it. If unable to detach the prize from the West to add to his Eastern booty, Stalin most assuredly did not want it to become an asset to his enemies. Adenauer's emergence as chancellor, at the age of 73, was a major setback to Soviet ambitions.

Although it wasn't so clear at the time, Adenauer viewed the process of European integration as an instrument of eventual German reunification. His resolute opposition to any form of recognition for the Soviet-backed regime in the East and his insistence that Bonn be the sole representative of the German people seemed destined to *perpetuate* the division of Germany, not unite it. Yet, although unspoken, at the core of the Adenauer strategy was his fundamental belief that every policy position must ultimately serve to unite the divided German states.

Adenauer's consummate skills and unwavering dedication to shaping his country's democratic future in partnership with the West led, in 1955, to a succession of triumphs: The sovereign Federal Republic of Germany was born, and Germany acceded to the Western European Union and to NATO, thus opening the way for German rearmament, itself a major contribution to Western security. Losing no time in response, the Soviets created the German Democratic Republic in September 1955, apparently setting in concrete forever the division of the German people.

The task confronting Adenauer then became one of aligning his fundamental goal of reunification with his other foreign-policy goals, not to be an easy task. Sovereignty for the Federal Republic and membership in NATO and the European Economic Community were, after all, on their face an admission of the impossibility of reunification. But Adenauer believed firmly that these goals could and must be reconciled; he devoted all his remaining energies to achieving them.

Alliance with de Gaulle

Fortune smiled on Adenauer once again with the election of Charles de Gaulle as president of France. The two men met for the first time at Colombey-les-Deux-Eglises in November 1958, and instantly created the relationship that led to a historic personal alliance. For de Gaulle, Adenauer, then 82, embodied the kind of Germany he wanted and needed; for Adenauer, de Gaulle, 15 years his junior, was a leader who, even in his most obstreperous moments, reflected the destiny of France, once again a major player on the world scene. When de Gaulle shocked and angered other NATO allies by placing France on the path to becoming an independent nuclear power as early as 1959, Adenauer silently thanked him for a step that had the positive effect of making the West even safer from the growing military menace of the Soviet Union.

Himself a leader of the first rank, Adenauer spotted and deployed talent in the pursuit of his goals for Germany: Ludwig Erhard, the architect of German economic recovery and by 1963 Adenauer's successor, exploited The Old Man's leadership for the lasting benefit of postwar Germany, creating an "economic miracle." Others, such as Gerhard Schroeder, Eugen Gerstenmaier, and Heinrich Luebke were given the opportunity to perform and contribute importantly. Younger men like the brilliant Bavarian maverick, Franz-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

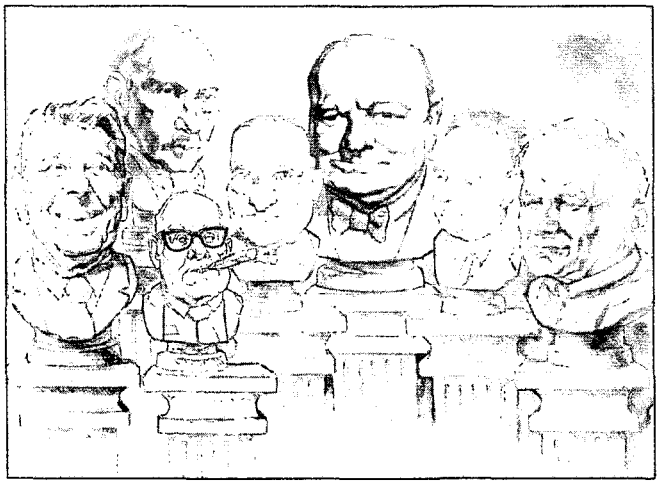
Joseph Strauss, cut their political wisdom teeth under Adenauer's tutelage and made huge contributions to their country.

Outlasting His Enemies

Vision, patience, and courage—especially the courage of one's convictions—are characteristics of all great leaders, and these attributes Adenauer had in abundance. "In politics, one doesn't need a new idea every day," he said. "It is far more important to implement the old ones." Judged by his contemporary critics as a stubborn old man rooted in another time and unable to seize momentary political opportunities, "der Alte" outlasted them all. He was right, as we can now clearly see, to stick by his principles and to endure even rejection by his peers. Adenauer was a man who knew when his hour had come, and so he exited the stage in October 1963 still very much a dominant force. Indeed, two years later, at 89, he stood once more for election to the Bundestag, the federal parliament, and served until his death, at 91, on April 19, 1967.

Nikita Khrushchev built the Berlin Wall in August 1961; it quickly became a symbol of all that is inhuman about Communist oppression. Adenauer, on whose watch the wall was built, clearly hoped that the West would simply knock it down, and was deeply disappointed when Western courage to do the job was not forthcoming.

The Old Man must have been smiling when the Berlin Wall came down in 1989, because a new chapter in the history of Germany, Europe, and the world was opened. It should be known as the post-Adenauer era, to commemorate what this remarkable leader made possible by his insight and his gritty determination.



GEORGE MEANY

Worker of the World

ARNOLD BEICHMAN

There were months in the postwar 1940s when the Communists in France and Italy were so powerful that they could close the seaports and prevent unloading of the U.S. Marshall Plan cargo that was needed to stave off economic collapse and dangerous aftereffects.

Through force and intimidation, and abetted by the high popular esteem of the Soviet role in World War II (expunged from memory was the Stalin–Hitler pact), the Communists had seized the longshoremen's unions and secured a stranglehold over much of industry. Neither the French nor the Italian governments seemed ready to overcome this threat to their sovereignty, let alone their economic recovery. The situation was so bad that U.S. transport planes, loaded in Algiers, had to airlift supplies into Paris and Rome.

Into this breach stepped the American Federation of Labor and its doughty secretary-treasurer (later its president), a Bronx plumber named George Meany. With cash from the AFL's Free Trade Union Committee and the organizing strategy of an AFL expert, Irving Brown (who was decorated posthumously by President Reagan), anti-Communist unionists in Italy and France organized dockers' committees in the beleaguered ports. Within a year they had overcome Communist power. This episode is but one example of the successful worldwide battle the AFL and later the merged AFL-CIO waged against Communist infiltration of the trade unions.

Mortal Enemy of the Kremlin

From the outset of the Russian Revolution, the AFL regarded the Kremlin as the mortal enemy of free trade unionism. For Lenin and later Stalin, American labor was the number-one target in their strategy to bring the international "proletariat" under their leadership: If the AFL could be won over, the socialist unions of Europe and Asia would fall into line. Instead the AFL under Samuel Gompers, William Green, and later Meany, led the resistance of the "workers of the world" against the ideology that claimed to represent them.

Except for a brief period after the organization of the breakaway CIO in 1935, the Communists got short shrift in American trade unions. Thanks to the arrogance of the first CIO president, John L. Lewis, Communists were welcomed into the organization, and thanks to the flabbiness of its second president, Phil Murray, they were tolerated. As a result, at one time about one-quarter of the CIO executive board were either party members or orthodox fellow-travelers. But by 1949 these board members had either broken with the party or they and their unions had been expelled from the organization. In 1955, the AFL and a cleansed CIO merged.

As AFL secretary-treasurer from 1940 to 1952 and as AFL and later AFL-CIO president from 1952 until 1979, Meany led the labor federation's postwar fight against Communism both at home and abroad. His allies included David Dubinsky of the Ladies Garment Workers and A. Philip Randolph, the courageous black labor leader who fought off Communist penetration of black organizations. But Meany, as Dubinsky put it, "did more than any of us to broaden the horizons of labor's interest in helping workers everywhere create free unions and defeat the threat of totalitarianism, whether with a swastika or with a hammer and sickle as its emblem."

Realizing that the struggle in postwar Europe would

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

be to prevent total Soviet control of a defeated Germany, the AFL supported Kurt Schumacher, who was an anti-Communist first and Social Democrat leader second. Later, after Schumacher's death, the AFL backed Chancellor Konrad Adenauer. The AFL gave crucial support to non-Communist trade unions in West Germany and warned U.S. occupation authorities of Communist infiltrators such as George Wheeler, who headed the American military government manpower division, and later defected to Czechoslovakia.

Another of Meany's major postwar contributions came at a time when the CIO, the powerful British Trades Union Congress, and other European labor federations joined the Soviets in establishing the World Federation of Trade Unions. The AFL refused to join this Moscow front organization, and actively campaigned against it. Within a few years, the AFL was proved right. The Western Europeans and the CIO withdrew from the WFTU when Stalin's control became undeniable. They then formed in 1949 a new organization, the International Confederation of Free Trade Unions, from which Communist unions were barred.

Even in the ICFTU trouble arose. European unions in 1952 pressed for inclusion of Yugoslav unions in the ICFTU because Stalin had excommunicated Tito. Meany said no: Yugoslav labor was under Communist control, no different from Soviet control. The AFL prevailed.

But the leftist culture of European labor could not be stilled. In 1969 when the ICFTU moved in a "popular front" direction under the prodding of European union leaders, who were flirting with Moscow, the AFL-CIO seceded and set up its own training schools for future labor leaders in Asia, Africa, and Latin America. The AFL-CIO returned only when the ICFTU reformed.

Détente's Most Powerful Critic

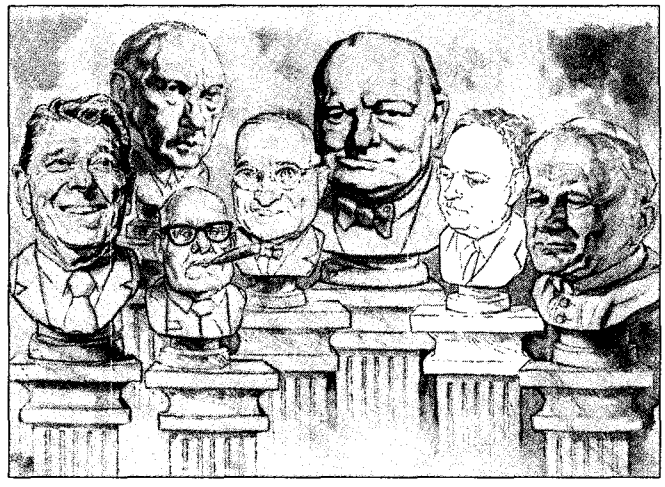
When Nikita Khrushchev came to America in 1960, Walter Reuther of the United Auto Workers and several other union leaders went to dinner with the Soviet leader during the AFL-CIO convention in San Francisco. Not only did Meany refuse to go, he also rejected a request from the Eisenhower administration to allow Khrushchev to address the convention.

The AFL-CIO withdrew from the United Nations' International Labor Organization when the ILO was taken over by the Soviets during the late 1960s and early 1970s. Meany forced the U.S. government to withdraw as well and to stop dues payments, one-quarter of the ILO budget. Only when the ILO reformed itself by adhering to its charter did the AFL-CIO return.

Meany was a thorn in the side of the Nixon and Ford administrations and the détente policies of Secretary of State Henry Kissinger. In 1974 the AFL-CIO sponsored a dinner for Alexander Solzhenitsyn in Washington, D.C., on the Soviet dissident's first visit to the United States. To their lifelong discredit, President Ford and Kissinger shunned Meany's invitation and forbade Cabinet members to attend.

In Senate testimony in 1974, Meany criticized President Nixon for being "the chief advocate of unilateral concessions to the Soviet Union." He accused Kissinger of "presid[ing] over an era which has seen a decline of American strength—military, economic, and moral, of unprecedented proportions." No wonder *National Review* said at the time that the AFL-CIO was the only organization talking sense in foreign affairs.

Meany and the AFL-CIO were not simply opponents of the Soviet Union, they were also staunch supporters of a strong U.S. defense and upheld U.S. involvement in Korea and Vietnam as necessary to protect the Free World against Communist aggression. Even staunch opponents of Meany in domestic policy must salute his role in hastening Communism's downfall.



WHITTAKER CHAMBERS

Witness

RALPH DE TOLEDANO

On August 3, 1948, a heavyset man in a rumpled suit, speaking in a flat monotone, gave testimony to the House Un-American Activities Committee (HUAC) that would not only create a national sensation and lead to the most publicized trial of our times but give a new dimension to the Cold War and to the nature of American political discourse. The man was Whittaker Chambers, certainly the most talented writer in American journalism and perhaps the most rigorous editor in the Time-Life organization. Hundreds before him had testified as witnesses for HUAC, detailing the scope and effectiveness of the Soviet *apparat* and the Communist underground in the United States.

No one quite knew to what Whittaker Chambers would testify, least of all the committee, but it was generally believed that he would merely corroborate some of the earlier testimony of Elizabeth Bentley, who carried in her knitting bag the minutiae of a wide-ranging and high-level espionage ring in the federal government. The problem with Elizabeth Bentley, as one Justice Department lawyer said to me, was that "with her total recall, she named members of a spy ring including an assistant secretary of the treasury with as much drama as if she had been reading from a grocery shopping list."

Chambers was not a happy witness. A former Com-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

munist agent, he had given his account of a Soviet *apparat*, which included Alger Hiss and Harry Dexter White, to Assistant Secretary of State A. A. Berle in 1939 and then variously over the years to State Department security and the FBI with no effect. Alger Hiss had become secretary-general of the San Francisco Conference that created the United Nations and would hold the pivotal position of director of the Office of Special Political Affairs at the State Department. Chambers now appeared in answer to a subpoena, as HUAC hoped that his testimony on the scope of the NKVD (later KGB) spy cell he controlled until 1938 would alert the nation to the gravity of Soviet infiltration of high policy-making posts in the government.

The Passion of Communism

It was not, however, because Chambers named Hiss and others that the secret battalions (to use Harold Laski's phrase) wedded philosophically or politically to the Marxist-Leninist faith began their relentless battle to obliterate him. Chambers was clearly the greatest danger they had faced from anti-Communism in America. He had been a Communist literary hero in the 1920s, writing short stories that stirred party members around the world. He had put this aside to join the revolutionary underground, working like André Malraux and other dedicated activists to overthrow Western civilization. He had seen first hand the dedicated Behemoth that sought to destroy all that Western religion, philosophy, and political thinking had established and to replace them with an ideology that elevated Man and men's relativism to Godhead and had organized militarily in the greatest threat to civilization since Genghis Khan.

In his first testimony about his break from Marxism–Leninism—and how poignantly he describes this in *Witness*—he spoke of his conviction that he was leaving the winning side for the losing, a view he pressed in later years out of discouragement but also as a means of rallying the flagging efforts of anti-Communist conservatives. In articles for Time-Life, in testimony, in letters, and in *Witness*, the most important and most germinal book of our times, Chambers delineated and evoked the nature of the struggle and of the contending forces—and of the passion of Communism, which said in Bertolt Brecht's words: "Embrace the butcher, but change the world." To hundreds of thousands, who influenced millions, he unbuttoned Communism's apocalyptic vision.

Without Chambers the Reagan Revolution would not have come about. It was prepared by the Goldwater movement, by the rebellion of young Republicans against the Eastern and Wall Street establishment—all influenced directly and indirectly by Chambers—and by the intellectual voice of *National Review*, which drew much of its sustenance from the Chambers view of God and man. (It has even been suggested that the good in Richard Nixon stemmed from his association with Chambers, and that the rest was due to Original Sin.) Ronald Reagan has acknowledged his debt to Chambers—and the presidential designation of the Evil Empire drove the liberals to a frenzy and the Communists to policies that drove the Soviet Union into bankruptcy and dissolution. The Cold War to Chambers was not the confrontation of CIA and KGB, not a battle of chorused rhetoric, but a process of forcing the Soviet system to the wall economically by forcing an escalation of those policies that were self-destructive.

Defining the Struggle

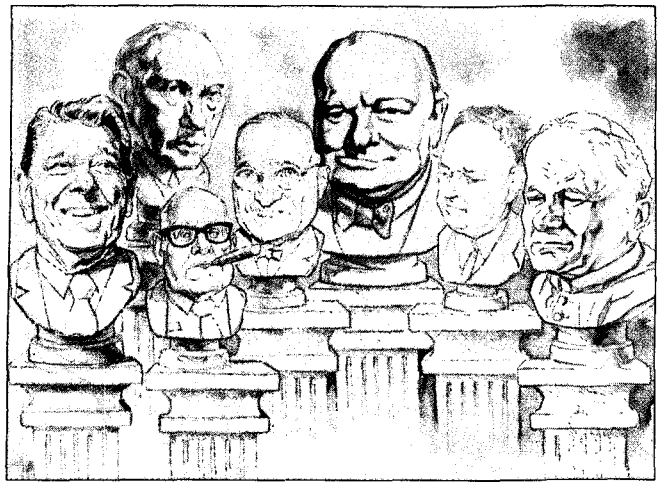
The Chambers contribution was to state in precise but eloquent terms the nature of the struggle—and the nature of a Western society that knew only subconsciously what he would tell it: "political freedom is a political reading of the Bible" and particularly the Pentateuch. He showed that Communism was not a journey of the soul to light, but of a non-soul in endless night. He knew where Golgotha was; he had been there. The poetry of his thinking carried many to the prose of action. The poetry told us that life under Communism was not merely torture but an adventure in death. The prose spelled it out in nuclear warheads. The force of his personality carried this beyond the barns and fields of his farm in Westminster, Maryland—carried it with warmth and erudition and wit. He could write with living understanding of St. Benedict, whose monks faced God but made some very good distilled spirits on the side.

Until the advent of Whittaker Chambers, Communism was seen mostly as social organization, forced labor camps, purges, secret police, and the most brutal and bloodthirsty dictatorship in history. But this did not explain its success in winning converts, in fomenting war and revolution, nor did it explain the drives and nature of what the liberals like to call "socialism in a hurry." Chambers showed Communism for what it was, a faith and a vision that was conquering man and dominating man's hope and fate. Against it was posited the flagging and compromised faith enunciated by liberalism—a faith that found its focus in hedonism, negation, and electric can-openers. When Nikita Khrushchev said, "We will bury you," the West laughed, but not very heartily. The last laugh came when President Ronald Reagan returned the compliment.

A conservative resurgence strengthened the West's resolve. But it is not too much to propose that Whittaker Chambers defined that resolve. He died too soon to know that his hopes had outdistanced his fears and that Western civilization would once more have the opportunity to end its confusions.

Anatol Woolf

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



POPE JOHN PAUL II

Awakener of the East

FR. ROBERT A. SIRICO

It was a nervous clique of geriatric Stalinists who watched from Moscow in 1979 as millions of Poles poured into the streets of Krakow to greet their native son Karol Wojtyla when he returned to them as Pope John Paul II. A political awareness dawned among these teeming masses when they saw in one another's boldness the impotence of the dictatorship that claimed dominance over their lives.

Nor were the only witnesses to these events Politburo members and Poles. Lithuanians and Ukrainians, Hungarians and Czechoslovakians also witnessed with astonishment the unfurling of Solidarity banners in a Communist nation.

Perhaps it was not so astonishing to the new pope. As a young boy Wojtyla used to pause for a few moments following Mass to offer a series of prayers "for the conversion of Russia."

From the outset, Wojtyla was a robust, intense, strong, and disciplined young man. His charismatic personality was augmented by his facility with languages and further honed by theatrical training. His combination of fervent piety and firm anti-Communism would serve him well in his future as priest, bishop, and cardinal in Poland. In a country that is itself 93 percent Roman Catholic, such a profession would necessitate dealing with Russia's surrogates, sometimes making strategic accommodations, without yielding the moral ground to Communism.

John Paul comprehended the dynamics of Marxism both intellectually and personally. He knew Communism well, so well that some left-wing theologians initially mistook his familiarity with Marxism for sympathy. They hoped he would lead a new and enriched dialogue between Christianity and Marxism. Instead, by virtue of his philosophical and theological training, he was equipped both to refute Marxism's logical errors, and also to offer a more compelling alternative in its place.

As leader of the largest Christian religion, John Paul is also the leader of a vast enterprise, joined to thousands of subsidiary organizations. These are linked by a common set of beliefs and symbols, enabling the transcendence of the usual barriers of language, culture, and geographic border. This expansive umbrella enabled him, through gesture, encyclical, and homily, to inspire millions of people living under regimes that violated their ability to work for authentic liberty.

Moral Conflict

During his pontificate, two other figures stepped onto the world stage and occupied with him critical roles in the momentous events that would unfold. A year after John Paul assumed his place at the Vatican in 1978, Margaret Thatcher came to occupy 10 Downing Street. About a year and a half later, Ronald Reagan took up residency in the White House.

The common thread between John Paul, Thatcher, and Reagan is that while they appreciated the art of politics, they understood the global situation in fundamentally moral categories. They understood, as few world leaders have understood, that the argument in favor of freedom is a moral argument as well as a political and economic one. Without the moral dimension, the battles that these cold warriors waged would have been meaningless and uninspiring.

The compelling dignity and moral depth of John Paul is especially highlighted when he is contrasted with the leaders of another international religious body, and their posture toward the dictatorships of Eastern Europe. I speak here, of course, of the World Council of Churches. Almost from its inception, and throughout the past 40 years, the socialist penchants of the WCC prevented it from offering any kind of principled opposition to the immorality of Communism.

"Liberation" was the central theme of the WCC's Nairobi Assembly in 1975. South Africa was denounced alongside "white Atlantic nations"; the rights of aborigines in Australia were defended even as the plight of migrant workers in Europe was decried.

Yet a motion to include in this litany of injustice a mention of religious repression in Russia was turned back. Instead, the assembly would only acknowledge that it "devoted a substantial period of discussion to the *alleged* denials of religious liberty in the USSR" [emphasis added].

While the officers of the WCC were funding Marxist guerrillas in Africa in the name of "liberation," John Paul was teaching the Polish underground in the effective use of nonviolent resistance to totalitarianism. He did this in his writings, as well as in the numerous meetings and audiences he held with leaders of the underground.

No doubt historians who write on this period in years to come will not only see the moral dimension, but also the superb tactical insight of the use of nonviolence. Too aggressive a stance on the part of the Polish underground and the Soviet Union might have cracked down at a much earlier and more vulnerable stage. Drawing on a tradition accustomed to martyrs, whose blood, it is said, is the seed of the Roman Catholic Church, prayer and determination in the face of persecution resulted in one of the most radical yet bloodless revolutions in world history.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Spirit of Liberty

If there is one word to characterize the legacy John Paul will leave to history, perhaps that word is liberty.

Historians will undoubtedly note the amazing move in the Catholic world toward democratic political processes and free economies in the period of this pope's reign. This is clearly evident in Latin America where the Pope has confronted unjust regimes of every stripe.

How fitting, then, that John Paul, this priest from Poland who lived under what is arguably history's most immoral and destructive political system, should have been the one to write the epitaph for collectivism in its Communist, socialist, and welfare statist incarnations. This he has done in the form of his most recent social encyclical, *Centesimus Annus* ("The Hundredth Year").

Celebrating the centenary of Pope Leo XIII's pastoral letter *Rerum Novarum*, *Centesimus Annus* looks at the events of this age and envisions a world where government is strictly limited and based on the rule of law; where free people trade in free markets to produce a more prosperous economy for all the world's needy; and where the social system is rooted in moral and religious tradition.

It will be interesting to see whether this moral vision will have greater impact on the West or on the former republics of the Soviet empire that John Paul did so much to free.

RONALD REAGAN

Terminator

ADAM MEYERSON

"Ronald Reagan won the Cold War without firing a shot." So says Margaret Thatcher, who helped Reagan make it happen. It was on his watch as leader of the Free World that the Communist Party of the Soviet Union lost faith in its own ideology and began to withdraw from the terrible conflict it had started against the West in 1917.

There were many internal reasons for the collapse of the Soviet empire—the economic crisis, the rise of democratic nationalist movements from Poland to the Baltics to Russia itself, the emergence of a new generation of party and military leaders less willing to kill for Bolshevism.

But it was Ronald Reagan who sounded the trumpet that made the walls come tumbling down. It was Reagan who made Mikhail Gorbachev and Boris Yeltsin possible. He did this by reviving the military, economic, and ideological strength of America and the Western world, by repeatedly standing up to Soviet intimidation without provoking war, and by presiding over a worldwide movement toward liberty and democracy that eventually undermined the Kremlin from within.

Military Turnaround

On the military side, many conservatives credit Reagan's unshaking commitment to his strategic defense initiative with the turnaround in Soviet thinking. This is plausible, because an effective SDI would undo the long-term Soviet strategy of building a nuclear arsenal that would terrify the West into submission. It must be remembered, though, that Reagan didn't actually deploy an SDI system, and that the balance of nuclear terror remained uncomfortably in the Soviet direction during the Reagan years—as it still does today.

More important for Cold War victory were Reagan's actual deployments on the ground—his overall military buildup, his use of force in Grenada and Libya, and the rapid advances in conventional "smart weapons" later used so dazzlingly in the Persian Gulf. Although Reagan was careful not to strike at the Soviets directly, he put them on notice that the malaise of the Carter years was over, that America again had the means and the will to beat them in a conventional war.

This message was reinforced by Reagan's strengthening of the Western alliance. The strategic priority of the Kremlin for a generation was to neutralize Germany and to split Western Europe from the United States. This strategy was almost achieved under Jimmy Carter, but it backfired when Reagan and the allies pressed ahead in deploying Pershing IIs. A demoralized Kremlin had to confront a relatively united front of Western leaders—Thatcher of Britain, Helmut Kohl of Germany, François Mitterrand of France, Yasuhiro Nakasone of Japan—who won re-elections as they strengthened their militaries and stood with Reagan against Soviet intimidation.

Soviet morale was further shattered by defeat in Afghanistan. As my Heritage colleague Leon Aron has written, the biggest changes in Russian government have usually followed military catastrophes: defeat in the Crimean and Russo-Japanese Wars led to periods of liberalization, defeat in World War I to Bolshevism. Afghanistan was no exception. Reagan's decision to send Stingers to the mujahideen in 1986 denied the Soviets control of the air, and worsened their casualties and frustration. It was one of the great turning points in the Cold War.

The economic resurgence of the West was as important for Cold War victory as the military revival. Stalin consolidated power during the West's Great Depression, and the Soviet *nomenklatura* probably would have weathered its economic storm in the '80s if life were also

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

hard elsewhere. Instead Ronald Reagan inaugurated an economic boom throughout the Free World when he cut taxes, tamed inflation, and allowed greater competition in major industries—policies soon imitated by most leading market economies. Growth in international trade was twice as fast in the '80s as in the '70s, as Reagan and other Free World leaders kept rising protectionist forces at bay.

Serious structural problems remained in the U.S. and other market economies, particularly their inability to control government spending. But the contrast between Communist stagnation and Free World vitality was never greater than in the Reagan years. The result was mass revulsion against Marxism-Leninism among the peoples of the Soviet empire and, as important, a devastating loss of confidence among Communist Party leaders who saw their materialist ideology failing in its own terms.

Isolating the Kremlin

The third front in the Cold War, as crucial as the military and economic conflicts, was the battle of ideas. Reagan's words of liberty and democracy electrified the people of the Communist world, and he institutionalized a worldwide movement toward democracy that left the Kremlin totally isolated.

Through steadfast, patient, unhectoring diplomacy, National Endowment for Democracy aid, and an emphasis on long-term institution-building rather than immediate results, Reagan and his foreign policy team convinced countries from South Korea to the Philippines to Chile that their governments would be legitimate only if they governed with the consent of the governed. By the end of his second term, virtually all of Latin America and non-Communist Asia was either democratic or about to hold elections.

The Reagan strategy of democracy-building was unappreciated by many conservatives, but it proved very important for putting external and internal pressure on the Soviet leadership. Where once Communism was just one of many forms of dictatorship, it was now the exception in failing to satisfy popular aspirations. And Poles and Hungarians and Ukrainians and Mainland Chinese quickly clamored for rights enjoyed by Argentines and Turks and Taiwanese.

The chattering classes in the West made fun of the "Evil Empire" speech. No one laughed in Kiev or Vilnius or Gdansk, where Reagan's words were a tremendous inspiration to emerging democratic forces. The greatest influence was on emerging Soviet leaders, who knew in their hearts that Reagan was right. Soon high Soviet officials were making public apologies for the misdeeds of their regime. Reagan asked Gorbachev to tear down the Berlin Wall in 1987. The words hung in the air, and they had a profound impact on Gorbachev. In two years Germans were dancing on a wall where they once would have been mowed down in cold blood.

Reagan delivered one of his most important Cold War speeches in May 1988. He spoke at Moscow State University, under a statue of Lenin, to the privileged children of the *nomenklatura*. He spoke simply about the ordinary freedoms of Americans—freedom of worship, freedom of the press, the right to strike, "the right to question and change the established way of doing things." He won the hearts and minds of almost every student in that room, and his words spread like wildfire through Russia and the other Soviet republics. They reinforced the message of freedom and truth broadcast every day by Radio Free Europe, Radio Liberty, and the Voice of America. And Reagan's friendly voice in a citadel of Communism undercut the Kremlin's fiction that it needed dictatorial power to protect the Motherland from American "imperialism."

Gorbachev as Reagan's "Useful Idiot"

Some American conservatives called Reagan a "useful idiot" for speaking under Lenin's statue, for inviting Gorbachev to America, even for holding summits at all with the Evil Emperor. These conservatives feared Reagan would legitimize Gorbachev, sanitize Lenin, confuse the American people. They didn't understand that Gorbachev was America's "useful idiot," and that Reagan was the true subversive. The explosion of reforms that opened up the Soviet Union really dates from his Moscow State address. The reforms had already begun, but after Moscow State they could not be contained.

The standard liberal interpretation is that the Cold War ended when Reagan stopped talking about the Evil Empire and started negotiating with it. The truth is that it was the Soviets who changed, and that Reagan, who deeply understood Communism as a spiritual evil, knew almost immediately that Gorbachev was a different kind of Communist, one who could be persuaded to invite in the Western ideas that in the end would overthrow the Communist regime. Margaret Thatcher, who also knew the evil of Communism, came to the same conclusion and may well have persuaded Reagan that Gorbachev was a man we "could do business with."

Speaking before the British Parliament in June 1982, Reagan declared, "It is the Soviet Union that runs against the tide of history by denying freedom and human dignity to its citizens." He described "the march of freedom and democracy which will leave Marxism-Leninism on the ash heap of history as it has left other tyrannies which stifle the freedom and muzzle the self-expression of the people." Most of Reagan's listeners thought he was just giving a beautiful speech. But it was his genius to convince both West and East of its prophetic truth. ☎

RICHARD V. ALLEN, *president of his own Washington-based consulting firm, was national security adviser in 1981-1982.* ARNOLD BEICHMAN *is a research fellow at the Hoover Institution, a columnist for the* Washington Times, *and author of* The Long Pretense: Soviet Treaty Diplomacy from Lenin to Gorbachev. FRANK GREGORSKY *spent 10 years working in the House of Representatives and is now publications director for the Congressional Institute.* ADAM MEYERSON *is editor of* Policy Review. *Paulist Father* ROBERT A. SIRICO *is president of the Acton Institute for the Study of Religion and Liberty in Grand Rapids, Michigan.* MATTHEW SPALDING *is a doctoral student in government at Claremont Graduate School.* RALPH DE TOLEDANO, *the veteran journalist, was co-author of* Seeds of Treason, *a 1950 book on the Hiss case.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NEW • SIGNIFICANT • BASIC

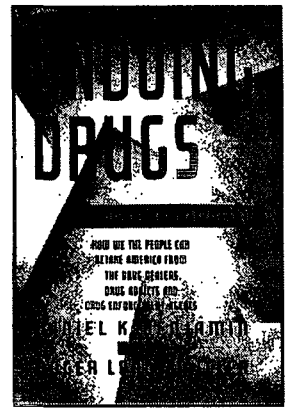
UNDOING DRUGS
Beyond Legalization
DANIEL K. BENJAMIN & ROGER LEROY MILLER

A bold new program that eliminates the federal government's monopoly on drug policy and elevates the drug-enforcement powers of the fifty states and their local jurisdictions.

"An extraordinarily well-documented, calmly reasoned, yet devastating indictment of the many ways in which federal officials have abused the 'war on drugs.'"
—Alan Reynolds, Hudson Institute[1]

$23.00

"extraordinary"[1]



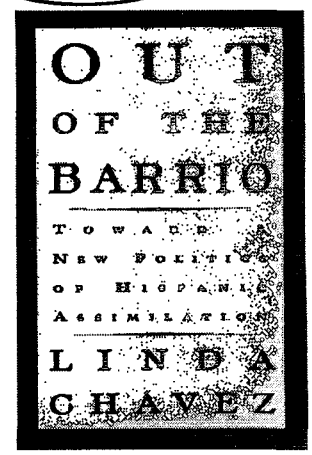
OUT OF THE BARRIO
Toward a New Politics of Hispanic Assimilation
LINDA CHAVEZ

Tells the largely untold story of Hispanic progress and achievement and considers the implications for bilingual education, immigration policy, and affirmative action.

"Sober, eloquent, and politically incorrect."
—Dinesh D'Souza, *Washington Post*[2]

$23.00

"eloquent"[2]



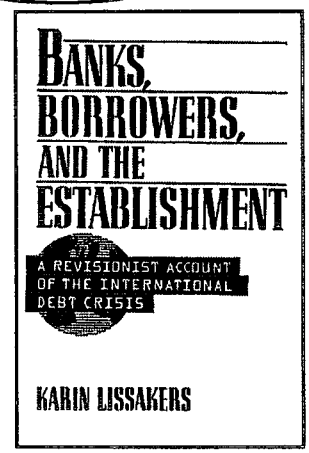
BANKS, BORROWERS AND THE ESTABLISHMENT
A Revisionist Account of the International Debt Crisis
KARIN LISSAKERS

This important book, the first comprehensive account of the international debt crisis, argues that private banks can and must continue to play a role—but only after basic weaknesses in both the borrowing institutions and the lending banks are addressed.

"A valuable guide to responsible public policy."
—Senator Bill Bradley[3]

$23.00

"valuable"[3]



At bookstores or from

BasicBooks

A Division of HarperCollins*Publishers*
10 E. 53rd St., New York, NY 10022
Toll-free with credit card 1-800-331-3761
Available in Canada from HarperCollins*Canada Ltd*

NOW IN PAPERBACK:

THE GROWTH EXPERIMENT
How Tax Policy Is Transforming the U.S. Economy
LAWRENCE B. LINDSEY

$12.00

BOUND TO LEAD
The Changing Nature of American Power
JOSEPH S. NYE, JR.

$10.95

FORKED TONGUE
The Politics of Bilingual Education
ROSALIE PEDALINO PORTER

$11.95

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Less Bang-Bang for the Buck

The Market Approach to Crime Control

Reuben M. Greenberg

The past two decades have seen a dramatic increase in crime in most American cities. Drug trafficking, and the violence that accompanies it, have paralyzed many urban areas, making them practically unlivable. The situation seems to worsen daily. In Charleston, South Carolina, we are reversing the national trend. During 1989, we had the lowest number of burglaries in the city since 1958. We also had the fewest armed robberies in a quarter century, the lowest number of auto thefts in 27 years, and the lowest number of larcenies in 22 years. Not only did the crime rate fall by 40 percent from 1982 to 1989; the actual number of armed robberies and burglaries went down, even as the population rate in Charleston was rising.

In Charleston, 8 percent of our population lives in public housing. Yet public housing residents and their visitors are responsible for only 1.8 percent of all armed robbery, rape, homicide, assault, larceny, arson, and auto theft crimes, and 2.6 percent of the minor offenses. In the past seven years, we have had only one person killed in the projects, and in 1990 we made only six drug arrests in public housing. Public housing is now one of the safest places in Charleston to live in.

We were able to decrease crime and make our neighborhoods safe with little expense and relatively few arrests by just paying attention to one simple principle: a market-based approach to law enforcement.

Standard Law Enforcement Doesn't Work

The first target in our war on crime was street-level drug dealing—for two reasons. First, open-air dealing was causing citizens, and even the police, to abandon entire sections of the city to the criminal element. These areas, which had been prosperous for decades, began to decline and businesses began to falter through no fault of their own. We wanted to reclaim these areas from the criminals. We wanted to eliminate or diminish the drive-by shootings, the fights and the knifings, the arguments, and the aggravated assaults that took place on the street—the mushroom effect whereby an innocent bystander is injured or killed in a turf dispute between dealers. Second, we felt that at the street level a municipality could have the most impact with the least amount of assistance from state or federal agencies.

At first we followed standard law enforcement procedure and concentrated on simply arresting dealers. We quickly discovered that this wasn't going to work. Within four hours—sometimes even less time than that—these dealers would be released on bond or bail and just go back out on the street with their alternate stash, selling drugs as openly as ever. It was obvious to us and to the law-abiding people of the neighborhood that we, the police, were impotent, completely unable to handle the situation. We would go out, make buys from the dealers again—which was very easy—arrest them, and they would be back on the street again within four hours. Many of these dealers had 10 or 12 different cases pending at the same time. In one case a dealer had been arrested on 20 separate occasions for possession or sale of narcotics, but not even his first case had made it through the criminal justice system.

It didn't take us long to realize that merely arresting dealers would not stop the street-level drug dealing. Even if we were lucky enough to have a dealer go to jail, bond out after about four hours, step off the curb at the county jail and get run over by a Mack truck, we would still be in no better position than we had been before. The location where he had been selling the drugs was just too profitable. Once he was out of the way, some other person would take his place. Even if a dealer were given the death penalty, we would be no better off than before, because the location itself was the key, and some other drug dealer would move in to take up the slack. It soon became clear to us that the solution was not to go after the dealer but to go after his market and to make it unprofitable.

Flashing Our Weapons

First, we identified 31 locations where drugs were sold in Charleston, about 17 of which were major open-air markets. This time, instead of using four or five officers in an undercover operation with a sophisticated intel-

Reuben M. Greenberg *has been the chief of police of Charleston, South Carolina, since 1982. He is author of* Let's Take Back Our Streets.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ligence van, we tried something simple, very economical, and as it turned out, very effective. We assigned one uniformed officer to stand with the drug dealer at his corner.

The officer stood about 40 feet away—I think that is the distance that even the American Civil Liberties Union would say that you can be away from drug dealers and not hear their conversations or otherwise deny their right to privacy. We weren't interested in whatever conversation they may have had, or in speaking to them at all—anything they may have said to us would be a lie. We were there to put a crimp on their business by scaring off their customers.

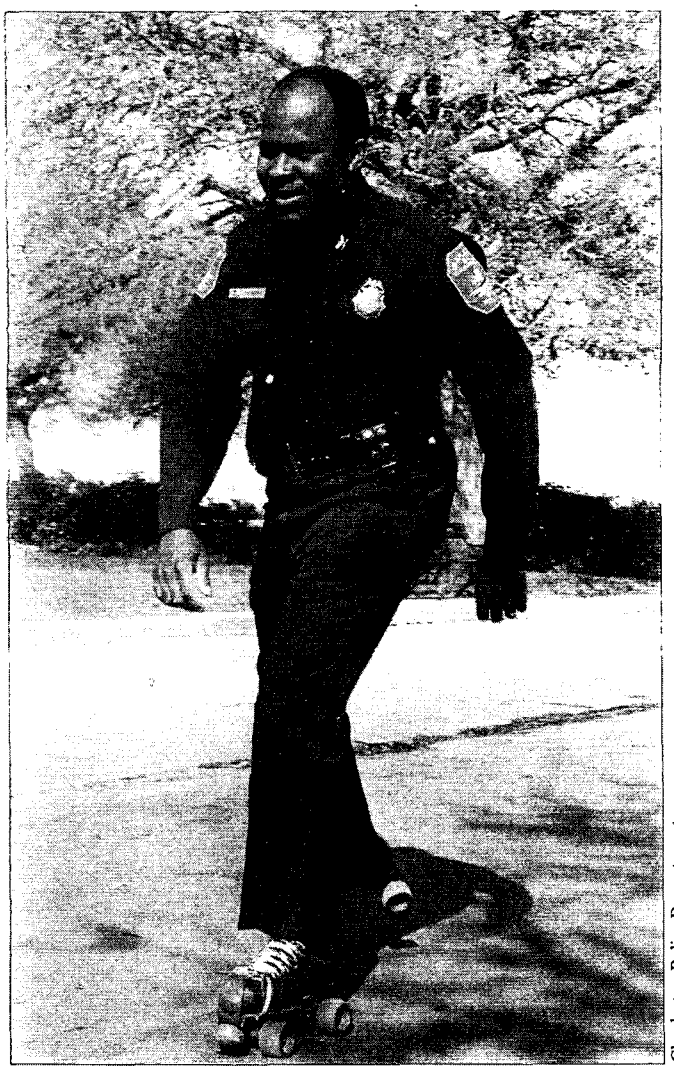
These drug dealers had been arrested many, many times. They were not afraid of us; they understood how the system worked. But most of their customers had not been arrested, did not really understand how the criminal justice system worked, and did not want to learn.

Our program had an immediate impact. With a uniformed police officer stationed 40 feet away, no one came near the drug dealer, even to say hello. All of the automobiles that came to the area would drive by the first time, come around a second time, and leave. In order to assist us, we added a weapon to our arsenal: a Polaroid™ camera with a flash. When these drivers would come by the second time we would take their photograph. And that would be the last that we saw of that particular customer. (It turns out, to the dismay of some super-libertarian groups, that it is not against the law nor does it infringe upon someone's constitutional rights to take a photograph in public. There is no expectation of privacy when you are walking down the street, for example, and are photographed or captured by the lens of a news camera.)

Retail Economics

Critics of our strategy argued that the drug dealers would simply go someplace else, and, in fact, they did; they went a block up or down the street. But, we found that they operated on the same basis as any other retail business, even though their business was illegal. They could not move too far from their established base of operation because they had no way of communicating their new location to their customers. Most of the people we arrested for buying drugs did not know the name of their dealer. They just knew they went to a certain location at a certain time of day when the dealer was there, and exchanged money for the drugs. But they didn't know his name, and he certainly didn't know theirs. So he couldn't go 10 blocks away or across town as critics had said he would. The dealer was really captured within an area of about two blocks.

People suggested that we would not get cooperation from the ACLU. They were wrong.



Charleston Police Department

Chief Greenberg cut crime in Charleston by 40 percent from 1982 to 1989.

Not only were there good business reasons why the drug dealers couldn't move, there was another very important reason as well. As one drug dealer told us, "You can get killed trying to move someplace else." After all, that's what turf wars are all about.

The naysayers also told us that we were going to have to cover these 31 drug markets 24 hours a day, seven days a week. Because we didn't have the resources to do anything even close to that, we initially zeroed in on five very carefully selected locations, each to be patrolled by one officer. We learned very quickly that we didn't have to cover these areas seven days a week. We would cover them on those days the drug dealers made the greatest profit—Wednesday through Saturday. On Sunday, Monday, and Tuesday we would let them rest, or if you will, sell as many drugs as they wanted. We could afford to. There just isn't the demand there is the rest of the week. About 70 percent to 80 percent of their drug sales took place Wednesday through Saturday to recreational drug users.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Not only did we not have to cover these areas seven days a week, we didn't have to cover them 24 hours a day. All we had to do to really have an impact on their business was to cover them from about 6:00 in the evening until about 2:00 in the morning in most places.

After two or three weeks—which was much sooner than we originally thought—these dealers left. They could no longer make a living selling drugs at that location. At the retail drug level, volume is very important. Street-level drug sales typically range from $5 to as much as $50 today—particularly for cocaine, marijuana, and amphetamines. Drug dealers must sell a large volume in order to make their business viable. We denied them their volume by ruining the most profitable hours of the day on the most profitable days of the week, simply by posting a police officer, in uniform, 40 feet away.

Merely arresting dealers will not close drug markets. You have to scare off the customers.

After a very short period of time we found that we could reduce dramatically the resources that we applied in the areas, although we could not altogether leave these five locations. After four to five weeks, just one officer could cover three or four locations, freeing the other officers to go elsewhere. We could never abandon the areas we took, but we could drastically reduce our efforts in those areas.

Police Graffiti

As we were driving the drug dealers out of business, we did other things to reinvigorate the neighborhoods, and to make the officers' job of standing alongside the drug dealers more pleasant. We spruced up the area. We began this project because we were a little selfish; the officers didn't want to stand among a lot of debris, paper, trash, flies, food, dead animals, and so forth, that had not been removed from the roadway.

The clean-up of the area was very important. If you are going to convince people—merchants, citizens, shoppers—that an area is safe, it has to look safe. And they are not going to be convinced that it is safe if there is gang graffiti and profanity on the walls, and debris in the roadways. The clean-up was essential, and unfortunately, we had to do it ourselves. The public works people and the sanitation department had their own priorities, and they didn't coincide with ours. So we used our own resources.

We got prisoners out of the jail to pick up trash. By chance, some of them had been in prison for street-level drug dealing, and, also by chance, some had been dealing in those very same areas to which they were now taken to clean up. It was interesting to see the reactions of the people in the neighborhood to seeing these dealers, who weeks or months before were loaded down with gold chains and all kinds of apparent wealth, now wearing orange jumpsuits that said "County Jail" on them.

We even developed our own graffiti—big squares we painted over existing graffiti, because we could not afford to match the paint of the surrounding areas. The black, green, or beige paint against a white background was much more attractive, I can tell you, than some of the words that it blocked out. These squares said, in effect, "this is police turf."

Within days, when people came around to buy drugs, the area looked a lot different; it looked like somebody cared about it. Paper, trash, and debris had been removed, not on a one-time basis, but every day. The first time it took us four or five days to clean up the various areas. But once we finished the initial clean-up, we were able to stay ahead of the problem. Subsequent clean-ups often took less than an hour.

We discovered that we only had to maintain our resources in each area until the word was out on the street that "this is no longer a place where you can buy drugs." As we liberated each of these original areas from drugs and crime, we would go to another area, and then another. Today, we probably have only one part-time open-air drug market.

Domino's Theory

Now, where did these drug dealers go? About 30 percent went out of the drug-selling business altogether. Not as many as we had hoped, but if you can drive 30 percent of all street-level drug dealers out of business with an expenditure of almost nothing—no additional personnel, no additional resources—that's pretty good. Especially if you are not overcrowding the jails and creating paperwork in the process. And no one else is going to come to that same spot to sell drugs when that dealer leaves, because he can't make a living selling drugs in that location either.

Some people expected that the drug dealers who were driven out of business on the street would merely continue selling drugs by using beepers. Rather than establishing a street location, beeper dealers have a paging number and deliver drugs to their call-in customers. But at the street-level, it is virtually impossible to make a living with beeper deliveries.

It was very easy for us to see the economic model when we put it on the blackboard and substituted the word "drugs" for "pizza." As you well know, you can have a pizza delivered to your home for $10 or $11, but the pizza company will do everything that it can to get you to buy a second pizza. There is a very good reason for that; the real profit is made in the second pizza. All of the overhead—the wear and the tear of the vehicle, the insurance, and the salaries—is basically absorbed by the cost of the first pizza. The second pizza involves just a few more ingredients, and virtually no more labor, transportation, or insurance costs. Therefore, even if the second pizza only costs $5, the pizza maker still makes more actual profit on it than he does on the first one.

The point is, the dealers couldn't make a living simply

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Charleston Police Department

Cleanup at an area is very important in convincing people that an area is safe. We have prisoners pick up the trash.

by delivering at $10 or $15 an item to a customer who had called in on the phone. The few who seemed to be doing so against the odds had one thing in common: they were juveniles who lived at home. In other words, their overhead was taken care of. So reducing the street-level dealing did not cause an increase in phone-order drug deliveries.

Safety in the Projects

After concentrating on ridding our streets of open-air drug markets, we turned our attention to Charleston's public housing. Like most cities, Charleston's public housing was rife with crime. And because 8 percent of all Charlestonians live in public housing, we decided it was worth our while to examine what made public housing fundamentally different from other types of housing. We found that the people living in public housing were more often the victims of criminal activity than the perpetrators of it. Criminals concentrated in those areas because our forces did not patrol heavily in public housing projects, leaving residents an easy target.

We resolved that we would no longer abandon these areas to the criminal element; we would establish ourselves as the dominant force. We added foot patrols and other kinds of patrols, and they were modestly effective. But finally we came upon the real solution. And that was to develop a kind of public housing that would be fundamentally different than public housing anywhere else, and at the same time similar to much of the private housing that exists in our country.

First we went to the ACLU and to the neighborhood legal systems to explain to them what the problem was as we saw it and how we wanted to go about dealing with it. People suggested that we would not get cooperation from the ACLU or from neighborhood assistance programs. Some predicted that not even the housing authority would cooperate. They were wrong. All three groups were at least as eager as we were that law enforcement people would take the initiative.

Screening Felons

We decided to screen people who went into public housing, in much the same way that any other landlord screens a tenant. First come, first serve would no longer be enough. Public housing officials already screened applicants regarding their financial status (whether they made a certain amount of money or were employed, or what kind of bank account they had) but allowed convicted felons (armed robbers, burglars, child molesters, arsonists, and rapists) access to public housing with no restrictions whatsoever. The only place in our city where people had to live with convicted criminals was public housing. Nobody else had to do that. Other landlords could keep them out.

We weren't interested particularly in keeping out anyone who had been arrested for driving while under the influence of alcohol; we didn't feel that they would endanger the quality of life within a public housing environment to the extent that it was necessary to exclude them. The same was true for shoplifters. We did

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

exclude people who were recently convicted—and I want to stress convicted—of armed robbery, burglary, sexual assault, arson, or child molestation.

We also decided to evict anyone who was engaging in illegal activities. In this case, we did not require that the perpetrator be convicted in a criminal court; we simply went after him in a civil court. After all, that's what an eviction is; it is a civil action, where the individual has violated the terms of his or her lease. All we had to do, for example, was to prove that we had found cocaine in the dresser drawer in the second bedroom during the execution of a search warrant. No one yet has been able to convince any of the judges that he had a good reason to have cocaine or other illegal drugs in his apartment.

Section 8 Country Club

The naysayers said that this program was not going to succeed, because out of the 8,000 residents, we would have to evict 3,000 to 4,000 people to make the neighborhood "safe." We were prepared to do that, but we didn't think it was necessary, and we were correct. We have had to evict only about 80 individuals or families from public housing in Charleston over a six-year period.

We didn't have to evict nearly as many people as originally thought, because public housing tenants did some interesting things. They *stopped* engaging in criminal activity. And it was for a very simple reason. Whereas arrest had not prevented them from committing crimes—after all, they could be out of jail within four hours—not having a place to sleep or live had a tremendous impact. Screening also encouraged some people to come forward and turn in family members who were involved in prostitution, illegal drugs, illegal liquor, and various other violations, because the entire household was placed at risk of being evicted from public housing.

We drove 30 percent of drug dealers out of business without overcrowding the jails.

We also decided to treat people in public housing as if they lived in a country club or an upscale apartment house. No outsider can enter a fancy apartment house unless a tenant gives permission to the doorman. Well, at 7:00 on Saturday nights, we set up a roadblock just like the gate at a country club in front of a Section 8 housing project called Bayside, where there was a serious drug problem. Nobody was allowed into the complex without permission from the tenant he had come to visit. An officer would call the tenant on a cellular phone; if there was no phone in the apartment, the officer would escort the visitor to the tenant's door.

We discovered several things in doing this. First, many of the tenants we called claimed they had never heard of the person who had come to visit them. At least they didn't want to let the police know they knew them. Second, we found that the vast majority of people who came to Bayside at night were non-residents. They were criminal predators who came to sell drugs or engage in other illegal activities. By eliminating their presence, we eliminated much of the crime in our Section 8 housing. Third, it turned out that some of the visitors to Bayside were people we had been looking for. As one officer called the person the visitor had come to see, another would check his license plate number in our computer system. We arrested a murderer, burglars, drunk drivers, and many drug dealers. We ended up killing a lot of birds with one well-placed stone.

In almost no time criminal activities at Bayside dropped off dramatically. Our checkpoints became less frequent because criminals got the message that they were not welcome there. We still act as doormen about once a month, just to make our point. For the most part, though, our crime problem at Bayside has been solved.

Fringe Benefits

Our efforts to improve public housing and to close down open-air drug markets have yielded unintended benefits for Charleston in the last year. As the success of our crime-reduction strategies has become more widely known in South Carolina, areas around Charleston have petitioned to become part of our city. In the past two years we have gained more than 26 square miles of territory, much of which is used for commercial purposes. The owners of the 500 stores that have recently become part of Charleston know that, while our city taxes are a little higher than those they were paying before, the superior police protection they receive makes the move a good choice. The money these businesses pay into city coffers in turn helps keep taxes for citizens in Charleston down, while giving a boost to the city economy. On the negative side, Charleston's rapid growth caused our crime rate to rise in 1990 and 1991. Because these crimes are, for the most part, taking place in the city's newly acquired territories, however, we suspect that this increase in illegal activity is temporary. We know that we have a winning formula to combat a temporary increase in crime.

In Charleston, South Carolina, we found that simply by targeting specific neighborhoods we could have an immediate and lasting reduction of street-level drug dealing and the victimization associated with it. We also proved that it was possible over time to reduce significantly the incidence of crime in public housing. Moreover, we accomplished this without massive increases in manpower, money, or other resources, and without overburdening the jails or other parts of the criminal justice system. All we had to do was look at street crime and drug dealing as a business, and fight it by reducing the profit margin until the business was no longer worthwhile to operate. Criminals, just like everyone else, respond to market forces. We just needed to show them that, literally, crime doesn't pay. ☎

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THOMAS AQUINAS COLLEGE

There is in the land a counterfeit education that takes its bearings from the passions of the moment, from the loudest and most implacable interest groups. A hundred-headed Hydra spitting the venom of resentment and ideological cant, it has made its lair in the most venerable of our halls of learning; it loves the richest and most ancient temples of academia.

But it has not insinuated itself in every place. Thomas Aquinas College, nestled in the coastal mountains of California, faithfully continues in the traditions of the West, the traditions of philosophy and faith. This small, independent Catholic college trains the student in the sturdy old arts of logic and geometry, of music and astronomy. It equips him with the sword of Scripture and crowns him with the study of sacred theology.

In this day of academic dragons, let us make you a knight of reason and revelation.

For information or to arrange a visit, call or write Thomas Susanka, Director of Admissions, Thomas Aquinas College, 10000 N. Ojai Road, Box 206, Santa Paula, CA 93060; 1 (800) 634-9797.
From Canada, call collect: (805) 525-4417.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

House Repairs

What We'll Do When We Reach Majority

ROBERT H. MICHEL, DICK ARMEY, AND WILLIAM F. GOODLING

Would it make much difference if the House of Representatives were controlled by the Republican Party instead of the Democrats who have run it since January 1955? *Policy Review* asked Robert H. Michel, Republican minority leader, what he would do differently if he were Speaker of the House. We similarly asked ranking Republican members of more than a dozen committees and subcommittees what they would do differently if they became chairman of their committee or subcommittee. Lawrence Coughlin, ranking Republican on the transportation appropriations subcommittee, said he was happy with the way the Democrats ran his subcommittee and would do nothing to change it. Most other Republicans we invited declined to respond. We print responses from Minority Leader Michel, Dick Armey, ranking Republican on the Joint Economic Committee, and William F. Goodling, ranking Republican on the House Education and Labor Committee.

ROBERT H. MICHEL

> ...As Speaker Robert H. Michel received the gavel symbolizing his new office he told his colleagues, "from now on we will do unto ourselves what we have heretofore done unto others." Michel referred to the fact that the House is not subject to a wide-ranging number of laws, from the Social Security Act of 1935 to the Civil Rights Restoration Act of 1988, including the Freedom of Information Act and the Civil Rights Act of 1964. "The House will under my speakership be obliged to abide by all the laws, rules, and regulations that we impose upon the American people legislatively," Michel said.
>
> —*Front page,* Washington Post, *January 3, 1993*

A fantasy? Perhaps, but I believe the public's disgust with the way Congress operates makes it possible for the first time in many years for a Republican majority to be formed in the House of Representatives. Overgrown staffs and underhanded procedures, irresponsible budgets and irrational schedules, the arrogance of unlimited power and the power of unchecked privileges—these are the legacy of Democratic control of the House of Representatives for 55 of the past 59 years.

House Republicans claim no monopoly on legislative or ethical virtue, but we alone can provide the will and the vision to rid the House of decades of institutional decay and decline, and create a new Hill order. The Democrats have had their chance, and have failed.

A Republican majority would embark on a truly conservative revolution in the House, for our goal would be to *restore* the institutional virtues that have been lost, *preserve* the strengths that have survived, and direct the energies of the House to enhance and protect traditional American *values.*

As Speaker of the House, I would in the first 100 days lay out a program for broad, comprehensive reform of the House's procedures and practices, and guarantee prompt and expeditious consideration of all the great issues of the day. A Republican-controlled House would work *with* a Republican president, not thwart his efforts, as the Democratic majority has done on every major issue from the war in the Gulf to a highway bill.

But exciting as such a program might seem, it would be impossible to pass unless Republicans first take control of the legislative machinery of the House.

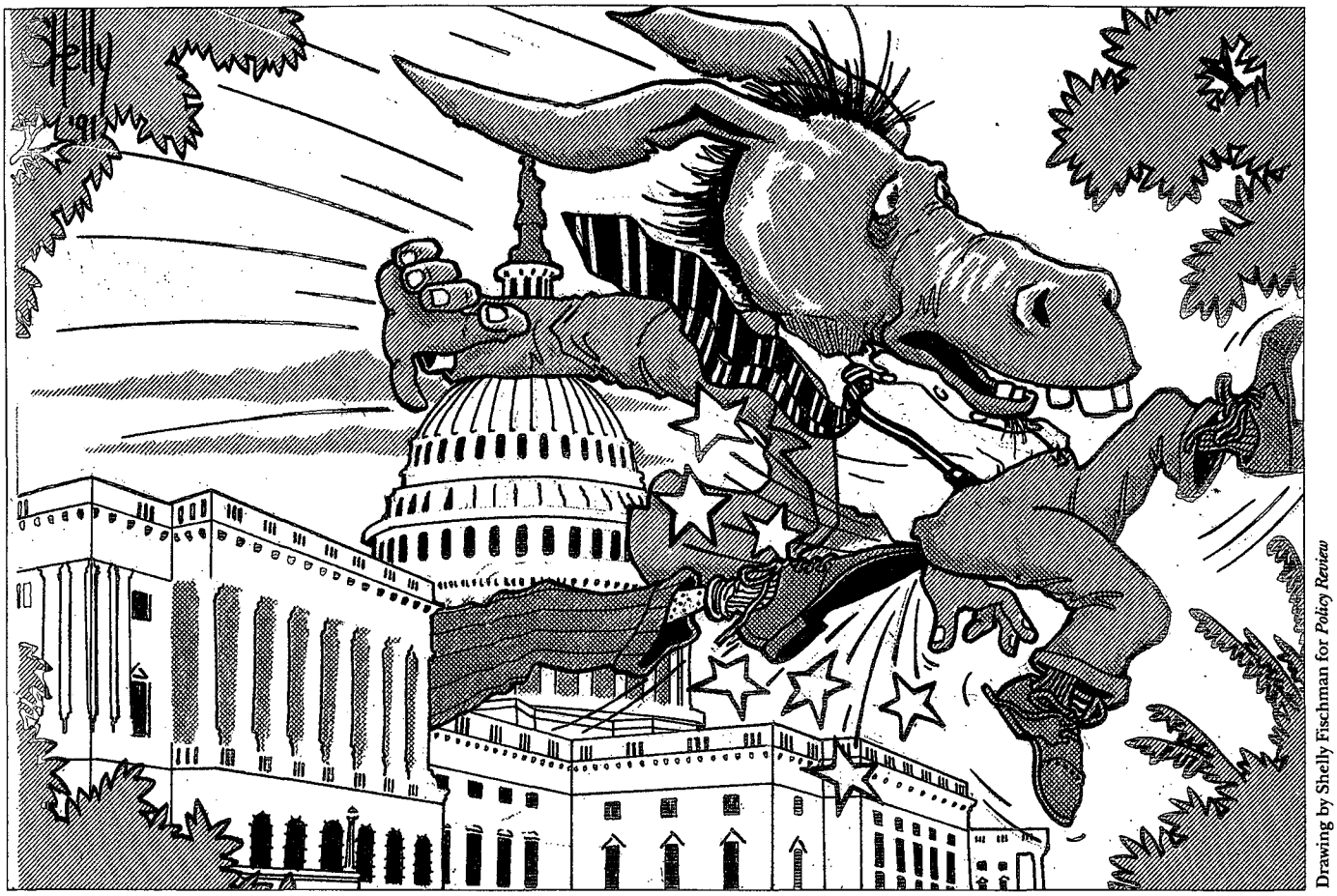
While the often volatile nature of the legislative process does not always lend itself to the managerial disciplines of business, there is absolutely no excuse for the House to be the kind of bureaucratic monstrosity it has become.

In the 35 years I have been a congressman—all as a member of the minority—the House has changed from a relatively small and efficient institution into a chaotic, bureaucratic empire of 11,000 staff members, and 1,800 support staff, including shademakers, venetian blind technicians, and upholsterers, not to mention 27 committees and 136 subcommittees.

The congressional staff—House and Senate—is nine times larger than the second-largest legislative staff in the world, that of the Canadian parliament. In 1960, three years after I became a member, the legislative budget was $131 million. In 1990, it was $2.24 billion—an increase of 1,610 percent.

As a majority, Republicans would cut committee staffs

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Drawing by Shelly Fischman for *Policy Review*

in half, which would save at least $26 million. We would get rid of most of the select committees and drastically reduce the number of subcommittees.

In order to make the House more responsive I would insure that all controversial bills come to the floor with rules guaranteeing free and open debate. One of the worst outrages of Democratic Party domination has been its insistence upon closed or semi-closed rules, effectively disenfranchising millions of Americans, who lose the chance to have their representatives offer amendments. When I first came to the House, civil rights bills were debated for days, not hours. In 1977, 85 percent of all rules were open rules. By 1990, that figure had fallen to 45 percent. The phrase "free and open debate" becomes meaningless when the chance for such debate is effectively eliminated by closed rules.

I would also establish a more orderly schedule for the consideration of legislation. The current process of doing very little in the early part of the year and then cramming important legislation into the very end of the schedule is not conducive to thoughtful legislating.

If all of these reforms strike some as being "merely" structural or procedural changes, I can only say that in the House, structure determines process, form dictates substance, and procedure shapes outcomes.

The cancer eating at the House is the inability or unwillingness on the part of the Democrats to undertake a comprehensive House reform, from the rules that govern the House to the rules that govern our elections.

The reforms that the House needs are varied, and I have touched on just a few of them. As Speaker of the House I would have the scope—and the majority—to undertake the first comprehensive reform of Congress in modern times. I look forward to it.

ROBERT H. MICHEL, *of Illinois, is minority leader of the U.S. House of Representatives.*

DICK ARMEY

As a professional economist, I'd relish the challenge of chairing Congress's Joint Economic Committee, and would assume the position acutely aware of the need to reform this committee. In light of the recent election returns from New Jersey, where the Democratic majority in both state house and senate were shown the door by tax-weary voters, there's some hope that in the next Congress this question may become more than simply rhetorical. In the meantime, I'll look at it from the perspective of "king for a day," and here's how I'd work from morning 'til night.

9 A.M.—Breakfast with the 44-member staff to tell a dozen of them they'll need to find gainful employment elsewhere. Like most congressional committees, the JEC is overstaffed. I'd reduce the staff size and use the budget savings to purchase better computer hardware and software to enable the professional economists to conduct sound analysis.

Once the committee was properly staffed and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

equipped, I would work to make it the source of some of the most respected economic analysis in Washington, rather than a forum for the politics of the majority party. The staff would have to understand that this is not the Joint Political Committee, but the Joint Economic Committee, and they should go about their jobs accordingly.

Pro-Growth Proposals

10:30—Meet with the other majority members of the committee to outline the issues we can most directly affect. The JEC does not write legislation, authorize or appropriate spending, and has no oversight authority. It is the closest thing to a "think tank" inside Congress, and its members are freed from the nuts-and-bolts detail work that consumes so much time and energy on other committees. It should deal in the realm of ideas, and its unique mandate should be exploited to explore economic notions.

With a Republican majority, the JEC could lead the way in pursuing desperately needed regulatory and economic reforms. Pro-growth tax proposals such as an indexed and progressively preferential capital gains rate, privatization, regulatory reform, freer labor laws, a free market in agriculture and communications, reform of entitlement spending, and freer world trade are all issues that could be explored if control of Congress were wrested from the Democrats and the special-interest groups to which they are beholden.

Nascent economic ideas like gold-backed bonds or the negative income tax could be examined just out of curiosity. In the first 10 months of 1991, the committee Democrats held 48 hearings, well over one per week. Just about all of them merely rehashed tired rhetoric from other standing committees.

The impact that historically high taxation as a percentage of the gross national product has on our economy, stifling regulations in the communications industry, and antiquated labor laws that serve more to enhance the well-being of lawyers than workers would all make for interesting hearings. While hearings like this would be less frequent, the committee's economists would produce more studies, reports, and economic analyses.

Noon—Lunch with the Ranking Democrat (that has a nice ring to it) to discuss minority rights on the JEC, agreeing on the ways in which we'll disagree. Free and open debate is good for the process, and the minority members would be provided two weeks' notice for hearings and allowed one witness for every two the majority party provides.

Any study or report issued in the name of the Joint Economic Committee would include views from the Democrats in the minority. (Today, Republicans have to resort to separate minority reports.) The best thing Republicans can do is put our economic policies and ideas right next to those of the Democrats and let the public decide which are better.

Disavowing Flawed Studies

2 P.M.—Press conference to set the record straight on past issuances from the JEC that turned out to be inaccurate, starting by disavowing a series of JEC studies and press releases issued by then-chairman David Obey in 1985 and 1986.

These studies purported to show the loss of millions of manufacturing jobs, the creation of mostly low-paying jobs in the '80s, and a big boost in wealth for those in the top income bracket. Unfortunately, these studies were riddled with factual inaccuracies, and were misleading to boot. The infamous wealth study, for example, contained a $2-trillion error, the largest in congressional history, and the JEC is still reeling from this blow to its credibility.

On another occasion, JEC Democrats leaked confidential, but erroneous, data on manufacturing jobs to the *Washington Post.* Only when confronted at a hearing did the chairman admit that the report was leaked, and furthermore that it was riddled with inaccuracies. Regrettably, the transcript of the public hearing, with its embarrassing revelations, has never been published. As chairman, I would not allow such public information to be suppressed.

Dynamic Analysis

3:30—Call Ways and Means Committee Chairman Bill Archer (R–TX) to discuss the need for dynamic economic analysis of tax proposals. As the primary sponsor of a capital-gains rate reduction, Bill knows that tax initiatives that lead to job creation are a net revenue gainer for the federal treasury.

The current revenue-estimating process relies on "static" models, which view the economy as a finite pie to be cut and distributed. Proponents of static revenue estimates fail to realize that taxes affect the size of the pie, that tax incentives such as a preferential capital-gains rate make the pie grow, and $160 billion in new taxes like those contained in the last budget deal make the pie shrink.

By ignoring such real economic effects, government budget forecasters consistently overestimate the revenue gain from a tax increase while discounting the economic growth generated by a tax cut. Since government spending is based not on actual receipts but on projected revenue, the Congressional Budget Office must constantly adjust its deficit projections upward, with the latest such "technical reestimate" lowering revenue projections (and thus raising deficit projections) by $77 billion over the next six years. Of course, there really is no "technical reestimate" of revenues, as this figure is simply the residual after known deficit factors are accounted for.

Forcing a redefinition of the way the government goes about projecting the effects of taxation would help the JEC reclaim its once prominent position as a focus of economic initiative on Capitol Hill.

6:30—Meet with the chairman of the president's Council of Economic Advisers to discuss the direction of the economy. Because the JEC was established in 1946 as the legislative equivalent of the president's CEA, a little dialogue between us would be healthy.

Under the current division of government, contact between the administration and the committee's majority is limited to testimony on the Hill, on which occasions the Democrats flog administration officials before the cameras of C-SPAN. If Republicans controlled

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Congress and the White House, the interaction could be much more productive.

Together, the JEC and the CEA could press for better data from agencies such as the Congressional Budget Office, the Joint Committee on Taxation, and the Departments of Commerce and Labor. For Congress and the administration to make sound economic decisions requires a good database. Unfortunately, much of our database is antiquated because it was designed to measure the economy of America's past, not its present and future economy.

DICK ARMEY, *of Texas, is the ranking Republican on the Joint Economic Committee.*

WILLIAM F. GOODLING

A former Speaker of the House of Representatives, Joe Cannon, once said, "The pendulum will swing back." I look forward to the day it does. There are many things I would do differently were I chairman of the House Education and Labor Committee.

To begin with, the committee would be run with less staff—perhaps a third less—and at lower cost. We have learned to effectively make do with less as the minority in Congress since Eisenhower's presidency and I would apply those same principles of efficiency to Republicans in a majority.

While it would be tempting to adopt the same rules of convenience presently used by the majority, government must represent all Americans. I have often seen instances when we in the minority have strengthened laws that have been reported by this committee. I would enhance, rather than limit, the ability of the minority to play that role.

Similarly, a more rational approach to the legislative process needs to be adopted. For example, committee members should be given five days to review any legislation in advance of a vote. They should also be required to cast their vote in person, or not at all. Both of these requirements would add to the quality of committee deliberations.

Are Our Labor Laws Working?

Moving to the labor field, many individuals come to Congress thinking the best way to make a name for themselves is to introduce and quickly pass controversial legislation. Unfortunately, this attitude prevents a thorough exploration of whether a problem is serious enough to demand a federal solution, or whether the legislation even properly addresses the perceived problem. While this criticism can be accurately directed at Congress as a whole, it is most obviously applicable in the labor field, where partisan emotions and slogans often take the place of rational debate.

One of my first initiatives as chairman of the Education and Labor Committee would, therefore, be to expand the oversight responsibilities of the committee to explore—through hearings—the question of how well the laws we pass are working. Do they accomplish what they were intended to accomplish? What problems have been created, perhaps foreseeable at the time of passage, that need to be addressed? Similarly, I would encourage more deliberative hearings in evaluating the merits of legislation before passing laws in the first place.

I would also encourage cooperation among government, labor, and business wherever possible in labor legislation. This approach has worked well in programs such as the Job Training Partnership Act (JTPA), and could do much to ensure the optimal efficiency and effectiveness of our labor laws and policies.

I would also work to cover Congress under all labor laws; the institution may learn a few things if it is forced to comply with the laws we impose on the rest of society.

These may seem mundane, obvious concepts; unfortunately, they are rarely followed on Capitol Hill. Indeed, the hearings that do occur are usually orchestrated toward some pre-ordained result—such as placing the administration in the worst possible light—rather than a balanced, objective analysis of what is going on in the real world.

Bipartisan Education Policy

In contrast to federal labor policy, Republicans and Democrats have tended to work in a bipartisan fashion on education policy. As a result, I have been generally pleased with the education laws enacted during my tenure on the committee.

Even so, looking to the future, if I were setting the committee's education agenda, I would begin to move in a new direction. President Bush and Secretary of Education Lamar Alexander have both been preaching the need to take a hard look at our nation's schools and to make fundamental changes in the way they operate. The president and secretary are building upon a grassroots movement that is pressing our schools to deliver better education to all students.

The implications of this movement for the committee and Congress are profound. We need to move beyond, but not abandon, programs that serve targeted populations and define a federal role geared toward improving all schools for all students.

A top priority would be to develop national education goals and standards without losing the strength of local control and diversity. I would also try to use the limited federal dollars that go into education to leverage change at the state and local level. Finally, I would make a major effort to amend current laws so education and other human development programs could be coordinated more easily at the local level. This could be accomplished by allowing state and local programs more flexibility in running programs so long as the goals of the programs continue to be met.

WILLIAM F. GOODLING, *of Pennsylvania's 19th district, is ranking minority member on the House Committee on Education and Labor.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

YESTERDAY'S CIGAR

Fidel Castro, The Last Caudillo

GEORGIE ANNE GEYER

The curtain of history is about to close on Fidel Castro. The Cuban dictator long pretended to be a Communist revolutionary, but in truth he was an admirer more of Francisco Franco than of Lenin. Castro will be remembered as the last caudillo of Spanish civilization, a vain, militaristic anachronism who took control of a prosperous, sybaritic Cuba in 1959, replaced the corrupt authoritarianism of Fulgencio Batista with a ruthless and moralistic tyranny, and systematically destroyed his country's economic and cultural life for the sake of his own total power.

Castro initially attracted a wide following as a Latin and Third World champion who stuck it in the eye of bourgeois "imperialism" and the United States. So it is ironic that he was the son of Angel Castro, an ambitious schemer from the beautiful but impoverished northwest Spanish province of Galicia, who had come to the island to fight against Cuban independence in the Spanish–American War of 1898.

Angel stayed on, amassed a fortune for that era by accumulating so much land, most of it illegally through "moving the fences" at night with his horsemen, that he was a millionaire when he died years later. But the Castro family had few of the intensely emotional familial ties that characterized Cuba at this time. Fidel and his siblings were born illegitimate, of Angel's liaison with the family maid, Lina Ruz. Even later, when the two married so Fidel could go to the Catholic schools, the family life was rude and rustic.

A Born Totalitarian

Fidel hated his authoritarian, rich, crude father, and like many Cubans of his and neighboring generations, he hated the omnipresent *americanos* who dominated the economic life and the political power of their country for so many years in the beginning of the 20th century. He did not have to look far to find examples of the Americans he would, from his youth on, devote his life to defeating and destroying. The big United Fruit farms abutted Angel Castro's ever-growing lands, and the upper-class father of the woman Fidel would marry, Mirta, was the lawyer for United Fruit. In later years, Fidel would create out of his dislike for his own father and his anti-American hostility to his own past a "new family," that of the Communist children of his own personal plantation of all of Cuba.

It has often been thought that Castro was at heart essentially some sort of leftish, original, rustic Cuban democrat who was turned toward Communism only through the hostility of the United States to the Cuban revolution. This is completely false. From the time he was a boy, Fidel Castro organized hierarchical revolutionary movements whose members were alienated young men and women from marginalized sectors of Cuban society and were under his absolute and total control. His was a totalitarian mindset characteristic of political bullies throughout history.

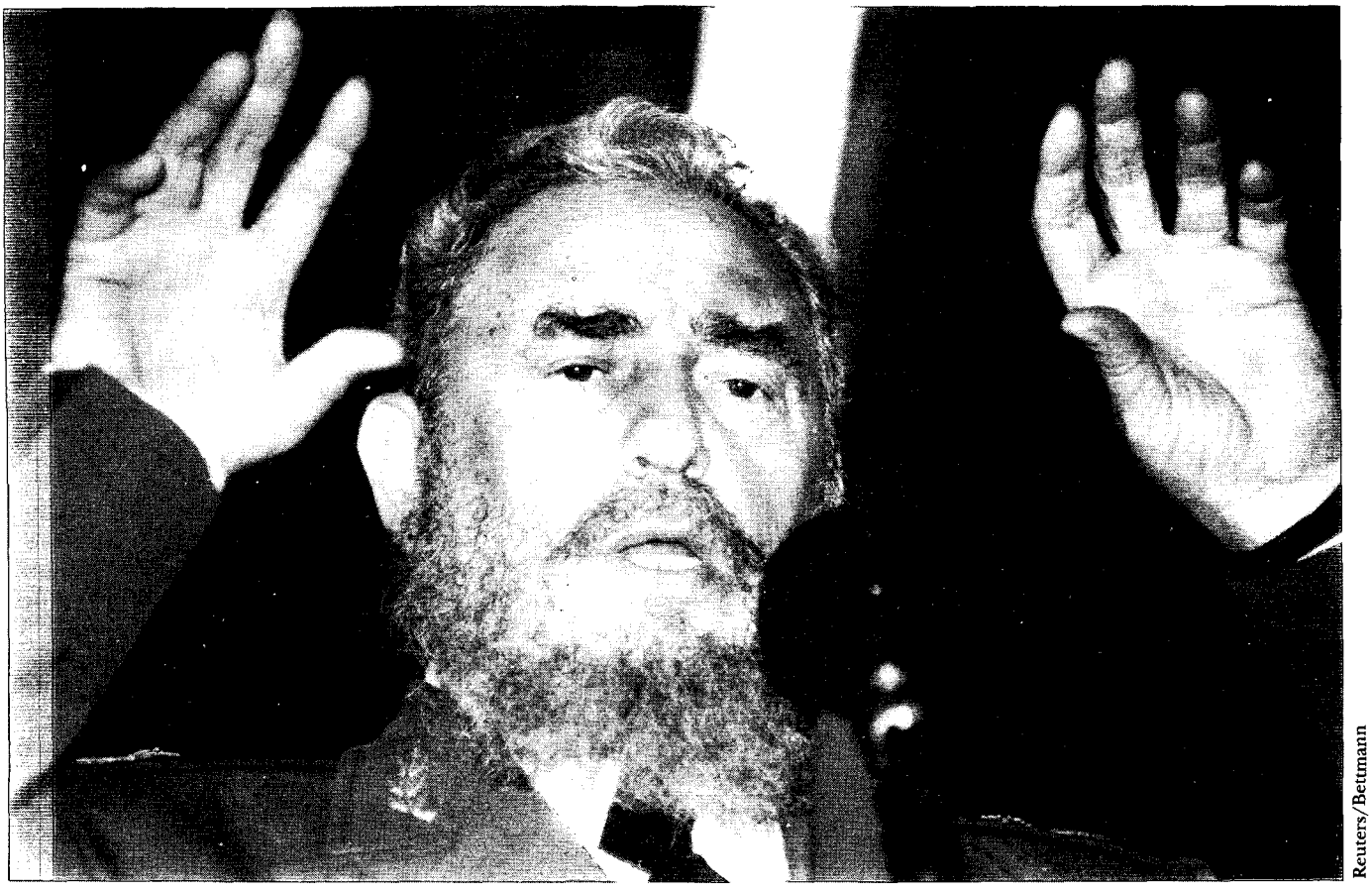
A loser in every student election he ran for as a youth, Castro as an adult never showed any interest in letting Cubans choose between the grandiosity of his personality and an alternate power. He also forbade his economic advisors from accepting the economic aid that the United States readily wanted to give him when he went to the United States in the spring of 1959, three months after taking power.

Castro pretended to be the "president of all the Cubans," but in truth he systematically expunged individuals and classes that could or would be competitors to him. In 1957, he let his fellow revolutionary leader Frank Pais be slaughtered by Batista thugs. Another revolutionary leader, Camilo Cienfuegos, disappeared in an airplane in 1959. Those who were with Castro at the time remember how, in his compulsive flights around Cuba, ostensibly searching for Cienfuegos, he was gay and happy and showed no signs of remorse.

Huber Matos, one of the greatest of the military men of the revolution and a consummate democrat, resigned from Castro's government because of the Communist bent he saw the revolution taking; Castro imprisoned him in an unlit cell for 22 years. The infamous Ernesto "Che" Guevara was captured and executed in Bolivia in 1967, after Fidel cut off all supplies and radio contact with him.

GEORGIE ANNE GEYER *is a syndicated columnist and author of* Guerrilla Prince: The Untold Story of Fidel Castro.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Reuters/Bettmann

Non Semper Fidel: The curtain of history is about to close on Castro.

General Arnaldo Ochoa is still another case of an immensely talented man who made the terrible—and fatal—mistake of allowing himself even to appear to be a worthy competitor to the *lider maximo*. General Ochoa, with his hawk's nose and his dark, Spanish good looks, was the hero of the disgruntled and disillusioned "Angola Generation" within the Cuban armed forces. When nearly all the 400,000 Cubans who had fought in Angola between 1974 and 1989 had returned home, many of them gathered around Ochoa's house. Fidel wasted no time; he arrested Ochoa on trumped-up drug charges and Ochoa was executed, along with three other high-level officers, in July 1989. Once again, Fidel had cleared the slate of threats.

It was the same with the middle and upper classes. From January 1959 on, with a systematic will that should be studied by students of revolution, Castro simply created impossible situations for the privileged and Americanized classes he had so hated since his childhood. Step by deliberate step, he stripped them of their properties, their industries, and their livelihoods. Many of their sons and daughters were imprisoned for "counterrevolutionary activity," which could be anything. The Catholic and Protestant churches were taken over, and the popular Cuban *santeria*, the Cuban religion from Africa, was turned into a cultural, and no longer religious, activity. A million Cubans, proportionately the largest middle class in Latin America, fled the country.

It was really quite simple: his strong will demanded absolute power, and so the economic power that these classes had controlled now fell under the implacable will of the state. And, as much as Louis XIV, Fidel Castro soon *was* the state.

Moscow's Darling

The attention of the Soviets focused on Cuba with the trip of First Deputy Premier Anastas I. Mikoyan in February 1960; and, from that moment on, the world believed that it was the Soviets who had taken Cuba in an ideological conversion of the first order. But this, too, was deception. For Castro had by then decided that, in order to be a leader on the world stage and to exercise the perfervid anti-Americanism that was the obsession of his life, *he* would embrace the Soviets—and gain them as his international *patrones*.

For their part, the Soviets were ecstatic about gaining this foothold only 90 miles from American shores; but some were also drawn by the romanticism of this new revolutionary state. In the late 1980s, Mikoyan's son, Sergo, recalled for me the strangeness of the visit. "By that time, [that romanticism] had almost been lost in our country," he said. He also recalled that neither Communism nor socialism was mentioned during the watershed visit: "It was only during the nine days that my father was there that he began to realize what was happening."

Once they began to realize what Castro was really willing to give, the Soviets fell upon Cuba with a vengeance. They quickly grasped Cuba's immense value as their surrogate in a decolonializing Third World, which

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

did not like the haughty, distant, cold Russians, but loved the emotive brother Cubans. For its ability to advance Soviet foreign policy and military objectives in Africa, the Caribbean, Asia, and the Middle East, Cuba became Moscow's privileged darling—so much so that 35 percent of Soviet foreign aid to Communist states soon was going to little Cuba. Soviet aid in the 1980s came to $6 billion a year. Soviet trade with Cuba came to account for roughly 70 percent of the island's imports and exports, with Eastern Europe accounting for another 14 percent of the trade.

Economic Disaster

Castro's economic dictatorship was absolutely disastrous for Cuba. He effectively turned the small and vulnerable island away from the world's most modern and productive economy, the United States, and turned it toward and into a system and a doctrine that was doomed to failure, Soviet socialism. The economy is far less diversified now than it was in 1959; it is more dependent upon the hated single crop of sugar (supposedly imposed by the "imperialist" Americans) than it was in 1959; and, by the 1980s, Castro was even buying sugar on the world market to complete his quota to the Soviet Union.

In the 1960s and 1970s Castro did have major accomplishments. These were rural health care and education (in particular, literacy), and it is true that he expanded health care for the most remote parts of the island, areas that had long been forgotten and forsaken

Castro's military is the largest in Latin America, larger even than Brazil's.

by the metropolitan mentality of Havana, and that he greatly broadened access to education. But Cuba's unclear and warped statistics for many years made it impossible to judge Castro's claims in these areas.

Perhaps Kenneth N. Skoug Jr., while director of the Office of Cuban Affairs at the U.S. Department of State, put the mystery together best in a comprehensive paper, "Cuba as Model and a Challenge," which he wrote in 1984. "The Cuban elite boast of achievements in the fields of health and education," Skoug wrote, in one of the few attempts to judge fairly Castro's claims:

> It is beyond dispute that Cuba has health facilities superior to those in many other countries. But Cuba was a leader among Latin American nations before 1959, in part due to its close association with the United States....Cuba was a healthy country long before it aspired to be a "medical power." In 1960 it already had one physician for each 1,060 inhabitants—only Argentina and Uruguay had more. In 1980, when Cuba had 700 inhabitants per physician, Argentina had 530 respectively.

The trick in being fair about Castro's claims, as Skoug and others now point out, is showing gains relative to gains made by other democratic countries in Latin America. Skoug went on,

> In 1960 life expectancy in Cuba was already 63. It gained 10 to 73 by 1980. But in the same period, greater gains were made by nine Latin American countries and similar ones by three others. Infant mortality, according to the 1977 Statistical Abstract of Latin America, was 32 per 1,000 live births in Cuba in 1960, the best in the region and better than Spain and Italy. In 1980, it was 19. In the same period, Jamaica had gone down to 16. Percentage decreases better than Cuba's 41 percent were achieved in 11 other states.

Dictator of the Cows

The destruction of Cuba rested upon a combination of Soviet socialist economic stupidities and Castro's own little-known weird eccentricities and fantasies, ones that doomed the Cuban economy to an even worse fate than some of the other socialist countries.

On the Soviet side, the bad economic investments were at times almost unbelievable. As Professor Jorge Dominguez of Harvard University has pointed out in the recent and comprehensive Freedom House publication *Cuba in the '90s*, the Cuban government was trying to make the new Punta Gorda nickel plant in Moa Bay in eastern Cuba into a model investment. But, "built with the help of Soviet investment, equipment, technology, and advice, the Punta Gorda nickel plant is so fuel-inefficient that its products may be perpetually uncompetitive in world markets...it has been mothballed for lack of enough fuel."

Similarly, Dominguez went on, "The new oil refinery in Cienfuegos and the nuclear power plant near Cienfuegos suffer from problems of inadequate technology and poor management. The refinery has been completed, but cannot be started. The nuclear power plant, long under construction, is far behind schedule with no firm prospects for termination."

On top of all this infantile planning, Castro, with his hand in total control of every lever of power and production, mulcted the Cuban economy with a bizarre series of special projects reminiscent of Stalin's chief "scientist," Trofim Lysenko. What is still little known in America or in Western Europe is that Castro personally conducted, behind the closed doors of the Cuban state, a world of science-as-magic.

He planted coffee all around Havana in special zones, and the little plants all died because the soil was inappropriate. He was going to create a Camembert cheese better than Normandy's. But above all, he was most thoroughly impassioned about creating a "new cow," a cow that would give more milk than any cow in history. Even his slavishly loyal literary friend, the great Colombian author Gabriel Garcia Marquez, jocularly dubbed Fidel the "Dictator of the Cows."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

So it was that Castro, against the advice of all the European experts who at times tried to counsel him (always briefly, before they were summarily expelled), crossed the Cebu and the Holstein cows in order to create Castro's wholly new bovine, the F-1, which was to dazzle the world. The second generation of Castro's cows had the worst defects of both the father and the mother—a symbol of the general state of the Cuban economy. Today, his prize cow, *Ubre Blanca* or White Udder, one of the few who actually did give more milk than the normal cows, is stuffed and stands proudly in one of Castro's museums; but on the island, the old-style cows reign again, and his great experiment is all but dead.

Perhaps René Dumont, the distinguished French agronomist and one of the many whom Castro expelled when they tried to stop him from his scientific manipulations, best characterized Castro's minuet with these "special projects." "I would have preferred an attempt to study nature and see how, by *adapting to it*, one could make maximum use of its resources and potentialities. No, in this military society, man commands, dominates, *violates* nature."

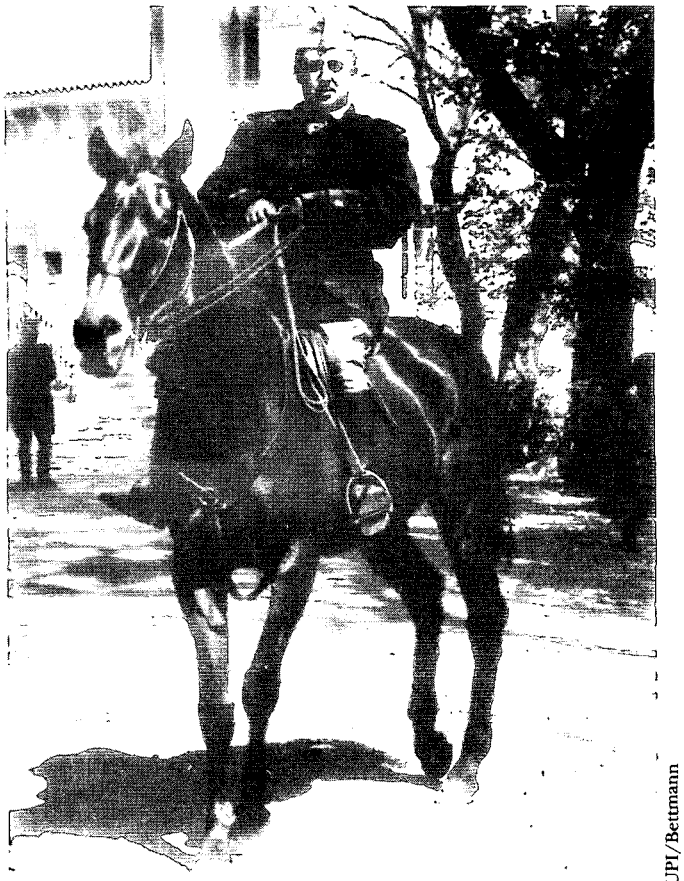
Bogus Communist

Because Castro so melodramatically announced in December 1961 that he was a Marxist-Leninist and always had been one, the world believed him. But Castro was never a real Communist in the ideological sense of the word, and the Cuba he created was also never in any aspect Communist. In reality, there is no collectivist or Marxist organization, structure, or institutionalization in Castro's Cuba. There was no leap of ideological faith to Communism on the part of Castro, as at least there had been in the minds of the early Soviet Bolsheviks. Real power is not held by a Politburo, or a central committee, or a Komsomol; real power was and is held by Fidel Castro, period. The Cuban regime turns out to be simply the case of a Third-World dictator seizing a useful ideology in order to employ its wealth against his enemies (in this case, the United States in particular and the West in general) and to stay in power forever. Far from being a leader who converted to Communism, Fidel Castro was the first Third-World leader to convert Communism to his own purposes.

Castro was and is a consummate military leader, a traditional Spanish caudillo, a Latin strongman. A good look at Cuba reveals a highly dictatorial state. Any real power held by anyone outside of Fidel is held by the military. Service in the military has long been crucial to advancement in the government or in the party.

By the 30th anniversary of the Cuban revolution, Castro's military was the largest in Latin America, larger even than Brazil's, even though Cuba had a population of only 11 million people. A regular Cuban army of 145,000 men was backed by 110,000 ready reserves and more than a million men and women in special militias (another part of his protective genius lay in continuously organizing new militias to replace old security forces, thus always surrounding himself with newly dedicated men and women).

His foreign legions were deployed from Angola to Ethiopia to Syria to Nicaragua. He trained guerrillas to overthrow governments, and they often did, until they failed in the late 1980s. Indeed, until the Gorbachev era, Castro's was the defining and the instrumental hand in the "liberation movements" that circled the globe.



UPI/Bettmann

Francisco Franco, the Latin man on horseback, was Castro's model more than Lenin was.

Florentino Aspillaga, the high-ranking Cuban intelligence operative who defected to the United States in the mid-1980s, gave a revealing portrait of the military man Castro. Aspillaga recalls a day in 1977, in Angola, where Castro spoke to several hundred Cuban troops:

> Castro was very content. Cuban troops had triumphed. When he arrived, there was a euphoria....He could have been Napoleon arriving at any of his occupied territories. That day he said to us, "I can speak for the first time really honestly. Here, nobody is working for the CIA. I can talk openly." Then he spoke about his charisma, about the nature of his mastery of the Cuban people, but also about the prestige he had now in Africa, how he had triumphed in Angola and Mozambique. It was the first time I ever saw him speak so about himself. I remember perfectly that he spoke about his "charisma" as one of his major virtues. He spoke about his principal virtue as being "my psychology over the multitudes."

Castro spoke that day of his real dream, that of "an America united under a common president." It was not

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

UPI/Bettmann

Che Guevara, killed in Bolivia after Fidel cut off his supplies, was just one of many rivals Castro had eliminated.

very difficult to figure out who that "common president" was to be.

The Rutgers University sociologist Irving Louis Horowitz has analyzed this overwhelmingly military role of Fidel Castro and what it signifies in terms of the Americas. "There was a presumption," he wrote, "entirely false as it turns out, that radical regimes tend to undercut longstanding Latin traditions of the military figure on horseback. In fact, the military is the only social force that has been institutionalized in contemporary Cuba."

That is why many observers contend that the end for Fidel Castro will come through his own military, the very one that he has built up and empowered.

An Island of Want

Meanwhile, what has Castro created on the once-rich island of Cuba, the island that Christopher Columbus loved most? He has created an island of want. Under the rationing, which is becoming increasingly draconian, Cubans get one-and-a-half bars of soap each month and half a chicken every two weeks. To conserve fuel, oxen are used instead of tractors in farming. The once-beautiful capital of Havana is literally crumbling from lack of care, and weeds already have grown over the city's beautiful colonial facades.

Castro is now moving 200,000 Cubans from the cities "back to the countryside" where they will live off the land, use roots for sutures, and even eat a Cuban type of rat, the *jutiá*. Castro showed very clearly at the big 10th Party Congress in Santiago de Cuba early in October 1991 that he was making no real changes in the economic structure and life of the country. He has allowed some 200 foreign companies to invest, but almost all in tourism, whose facilities can be kept apart from "his" Cuban people.

At the same time, his great patron, the Soviet Union, can no longer be counted on. The Soviets have cut off most of their food and oil. As Russia, Azerbaijan, and other republics take over Soviet energy resources, they will find it much more profitable to sell and buy sugar on world markets.

Worse for Castro, the rest of that Latin America that he so yearned to rule is opting for representative government and economic freedom. Other Latin countries such as democratic Costa Rica and even Cuba's sister isle, Puerto Rico, the other island freed from Spain in 1898, are forging well ahead of Cuba on all levels.

But one must not miss the fact that Fidel Castro still thinks he has won on the only playing field that is really important to him. From the Sierra Maestra in 1958, he told his confidante Celia Sanchez that, when the war against Batista was over, he would begin the real war, which was with the United States—that was his destiny.

And when NBC reporter Maria Shriver spoke with him in 1988, he told her, "We are left with the honor of being one of the few adversaries of the United States."

"Is that an honor?" she asked.

"Of course it is an honor," he replied, "because for such a small country as Cuba to have such a gigantic country as the United States live so obsessed with this island...it is an honor for us." ☎

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Lehrman-Mueller Hypothesis

A New Theory of Deficits, Stagflation, and Monetary Disorder

GREGORY FOSSEDAL

Not since the recession in 1982 have so many felt such unease about the U.S. economy. Even as the country returns to the respectable growth of the late Reagan years, most observers see worrisome disequilibria. Federal budget deficits fell to 3 percent of total output in the late 1980s, but rose again to 5 percent in 1991. Merchandise trade has not been in surplus for a generation, and this deficit is declining only against record 1980s levels. Corporate profits, which ranged between 5 and 7 percent of GNP for 40 years, have not exceeded 3.2 percent in any of the past five years. Meanwhile domestic savings patterns remain weak—and, unlike in the 1980s, they do so at a time when there is no major boom in real estate or the stock market to push up asset values as a substitute for savings.

From 1989 to 1991, just as many economists were beginning to speculate about the end of the business cycle, the United States slouched into a two-year, W-shaped industrial recession. A pair of inflation spikes in 1989 and 1990 called forth a word scarcely heard since the presidencies of Ford and Carter: "stagflation." Long-term interest rates have held close to and above 8 percent—at a time when individuals and corporations are heavily indebted. And while growth snapped up sharply after the 1982 recession, there has been only one full quarter of real annualized GNP growth better than 1.7 percent since George Bush took office. The recession ended in April 1991, and recovery was visible by October. It left intact, though, a gnawing sense that even the weak growth rates achieved would give way to another bout with stagflation in a few years.

Maybe this is the best more than 10 years of Reagan–Bush policy can do. Somehow, though, this proposition disappoints, considering the policy changes of the '80s. The Reagan presidency slashed income taxes to a top rate of 28 percent from the 1970s level of 70 percent. It brought the longest peacetime expansion in history. It whipped inflation with a decisiveness few thought possible in 1980. This economic renaissance helped revive democratic capitalism around the world, leading to emulation of U.S. policy from Latin America to Western Europe to the Soviet Union.

An economy that could achieve all those things should be able, one would think, to deal with such nagging symptoms as a chronic budget deficit, or the mini-comeback of stagflation in 1990. Even a short burst of lower inflation, with relatively good growth over the coming years, however, would not solve all the problems we now face. Today, many wonder whether we can hope to exceed our recent triumphs. A substantial proportion of Americans can no longer remember, or find plausible, a 5 percent home mortgage; a balanced U.S. budget or trade surplus; an unemployment rate of 3 percent.

Tortured Explanations

If there were a prevailing theory that could describe what is going on, people could at least feel the satisfaction of understanding what policies are responsible for these outcomes. Yet none of the major schools of economic thought—Keynesian, monetarist, supply-side—has consistently predicted the major economic turning points. And their explanations even of past and recent events grow ever more tortured.

Most voters, policy-makers, and even economists would agree, for example, that large U.S. budget and trade deficits are debilitating. Yet they have not produced the general depression or inflation predicted in popular books and essays. Domestic aggregates in 1983 caused more than one monetarist to project a double-digit consumer price index spike in 1984. Today, the only thing the monetarists seem confident in saying is that some measure of money may point, with some lag of 6 to 24 months, to changes in nominal GNP.

Steady prices for gold and other commodities, in combination with an overall reduction of tax rates passed in 1986, led supply-siders to maintain that fiscal and monetary policies were in line for low inflation and continued growth in the 1990s. Now, retroactively, some supply-siders blame inflation spikes that spanned 1989 and 1990 on a war that began in August 1990. And many attribute a recession that began in July 1990, and was

GREGORY FOSSEDAL *is a research fellow at the Hoover Institution and author of a forthcoming biography of Will Clayton, principal catalyst of the Marshall Plan and the 1947 GATT. He is an associate of Lehrman Bell Mueller Cannon.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

preceded by more than six months of declining industrial production, to an ill-advised but modest tax hike in October 1990—along with a postulated four-year or five-year lag effect from the 1986 relative tax increase on capital gains, implicitly ignoring large cuts in personal and corporate marginal rates in the same bill. Today—claiming there will be virtually no recovery without future capital gains tax cuts—such leading supply-siders as Jude Wanniski and Richard Rahn have all but proclaimed a failure a historic tax reform they once championed.

Rueff Renaissance

Into this frustrating vacuum now steps a new, or at least revived, theory of the world economy that is consistent with events. Its proponents claim it can predict major trends and turning points in U.S. inflation and output, as well as to account for those frustrating deficits and interest rates, and the recent return of stagflation.

The elder statesman of the new school is Lewis Lehrman, the New York businessman and financier who helped build Rite Aid Corp. into a national drugstore chain, ran for governor and was narrowly defeated by Mario Cuomo, and played a leading role in the passage of tax reform in 1986. (Lehrman is a member of the board of The Heritage Foundation, which publishes *Policy Review.*)

Lehrman's distinctive ideas about the international economy center on the "reserve currency" role of the U.S. dollar, and flow from the work of Jacques Rueff, author of the French economic reforms of the late 1950s and a major player in international monetary debates from the 1920s to the 1970s. In 1972, Lehrman established the Lehrman Institute in part to promote wider understanding and acceptance of Rueff's ideas among intellectuals and policy-makers. Lehrman analyzed the inherent tensions in the dollar-driven world economy for scholars through his institute, and for investors through a series of seminal papers for Morgan Stanley (where he was managing director from 1987 to 1990).

In 1979, Lehrman met John Mueller, who for most of the 1980s was economic counsel to Jack Kemp and the House Republicans. Mueller was to become Lehrman's partner in an effort that now is formalized in the "World Dollar Base," a proprietary measurement of global dollar movements. The two worked closely together, and with former Reagan adviser and New Jersey Senate candidate Jeff Bell, on the crafting of the Kemp-Kasten tax reform bill of 1984, and the evolution of tax reform in the Congress through 1986. Mueller was the modeler, working to crystallize Rueff's insights and Lehrman's general analysis of foreign central bank balance sheets into a methodology whose predictive value could be tested.

In the spring of 1988, Mueller and Bell, together with Frank Cannon, the director of administration from Kemp's campaign, founded what is now Lehrman Bell Mueller Cannon (LBMC), a forecasting firm for investors. They issued their prototype forecast in May calling for an unexpected return of inflation in 1989 and 1990, and a recession beginning in 1990. Although Lehrman did not become chairman of the firm until 1990, he was intimately present at the creation of a company designed, in part, to offer empirical validation of Rueff's theories.

After only three years of formal forecasting, it is too early to say that Rueffian economics has proven decisively that it offers the unified, correct explanation of the international economy. However, Rueff's insights offer a plausible theory that is at least consistent with the phenomena of the past 15 to 30 years. The Lehrman-Mueller hypothesis has predicted each of the major turning points in the U.S. economy since they began forecasting.

The Danger of Double Credits

As a French Treasury official in the 1920s, Rueff argued—much as Lord Keynes did, although for very different reasons—that the international monetary and trading system established after World War I placed the international economy in grave danger. By decoupling the settlement of international accounts from gold, and substituting the pound sterling and U.S. dollar as "reserve currencies," he argued, the world created a double-credit system. The system, he warned, would lead first to a partially artificial rise in stock prices, and then, depending on how the crisis was managed, a great inflation or depression.

In 1959, after France's Fourth Republic collapsed and Charles de Gaulle came to power, Rueff designed a fiscal package and monetary reform that spurred a decade-long economic revival. That reform completed, he returned his attention to the international system. Despite the nominal use of gold to back the reserve currency of Bretton Woods, he argued, the system was in fact more of a dollar standard than a gold standard. Dollars, not gold, were used to settle accounts—dollars that were being created as international reserves at a rate far outrunning the supply of monetary U.S. gold to back them. This system, too, he argued, would collapse—a prediction borne out by the inflation of the late 1960s and the decision of the United States in August 1971 to disconnect the dollar from gold altogether.

Rueff's distinctive school is based on his observation that under a reserve currency system, the world uses one currency as its primary, dominant medium of exchange. Furthermore, his followers argue, the world's reserve currency is one that can be monetized, in effect, by any central bank—not simply the country of issue. The rate at which that currency is monetized, they say—to settle international accounts, conduct trade, and monetize national debt—can and must be tracked internationally.

On some points, Rueffian economics provides a synthesis of supply-side, monetarist, and Keynesian ideas, incorporating their insights on the importance of incentives, the supply of money, price theory, aggregate demand, and aggregate supply, into a more general theory. Where the Rueffian school is sharply distinct is in its hypothesis about the special role of the U.S. dollar in the world economy. Lehrman and Mueller think that the international dollar—its reserve currency role—is the major overlooked variable in economics today. It accounts, they argue, for about half of the changes in inflation and output, with other, more conventional factors explaining the rest.

"The Federal Reserve alone doesn't set monetary policy for the dollar area," Mueller argues. "It is an

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

important actor, of course. But so are all the central banks that hold monetized dollar reserves around the world. In other words, the Bundesbank's intervention affects the U.S. dollar and the U.S. economy just as surely as the Fed's does."

"Seldom in history has there been so much talk about the idea that we live in a globally integrated market," Lehrman observes. Lehrman and Mueller add to this truism the striking hypothesis that the substantive management (or mismanagement) of the dollar is an international phenomenon. And the global economy, they insist, is a financially integrated system based on the dollar.

U.S. dollars are the medium of settlement in perhaps 70 percent of international trade. Most international currency and commodity trades are transacted in dollars. Central bank holdings of foreign currencies consist disproportionately of dollars. These central bank assets act as backing for their own domestic monetary base. For Japan and Germany, U.S. dollar reserves are maintained in a fairly tight band at about one-third their monetary base. The foreign official holdings of U.S. dollars are sizable: about $400 billion, or more than the Federal Reserve's own monetary base. And these holdings move with great volatility.

Most people today think of money as its functions might be listed by a standard economics text: 1) a medium of exchange, 2) a unit of account, and 3) a store of value. Money performs these functions better or worse according to how well the monetary system is designed and managed.

In general, the Rueffians believe that the Keynesian, monetarist, and supply-side schools have each captured an important part of the truth regarding money—indeed, most of the truth. None of the major existing schools, however, emphasizes the role of foreign central bank reserves the way the Rueffians insist they must be.

Keynes's Partial Truth

The Rueffians agree with Lord Keynes that aggregate demand—the total purchasing power, including money and credit, that enables people to buy goods and services—is important and measurable. Like many other economists, however, they insist that the way trade and budget deficits are financed is a critical factor in determining the impact that a given change in total demand will have. Deficits that are monetized will have a short-term stimulative impact—and later produce inflation. Deficits borrowed out of the credit markets without monetary expansion will compete with private credit—driving up interest rates and reducing the aggregate demand available to private lenders and borrowers.

Most Keynesians think such distinctions are relatively unimportant. The Keynesians look at all money primarily as an instrument of aggregate demand—something created by banks for people to buy things. (That is, they see money mainly as a medium of exchange.) When the economy is at less than full employment, their prescription is to increase aggregate demand by running deficits, and they are happy to see the Fed accommodate these deficits through low interest rates.

Hence the Keynesians watched with equanimity—no, delight—during the 1960s when the Fed and foreign central banks began to increase rapidly the supply of dollar reserves without a commensurate increase of the gold stock available to back them, at fixed rates of exchange. This trend began and was observed by Rueff, and his distinguished friend Robert Triffin of Yale, in the early 1960s. The same accumulation of dollar reserves abroad later accelerated and led to the breakup of the Bretton Woods system in 1971. On the Keynesian model, these increases in the demand for goods should have led to an increase in employment and the supply of goods, albeit with some rise in prices as well. What occurred, and ultimately discredited the Keynesian approach, was large price increases simultaneous with rising unemployment.

"Only a reform of the monetary system," Lehrman argues, "can bring substantial reductions in long-term inflation rates and substantial increases in long-term growth."

The Keynesians, in effect, had neglected to consider the feedback effects of aggregate demand management. Whenever the money supply exceeds the desired holdings of money by market participants, prices will rise, the value of money will decline, and its other functions will be undermined, as people will hold less money and trade more of it for fewer tangible goods. "The quest for tangibles...which is the inevitable counterpart of reducing cash holdings or assets denominated in currency to a minimum, accounts for all the features of the monetary disruption developing before our eyes," Rueff wrote in *Le Monde* two years before the formal breakup of Bretton Woods. Increases in aggregate demand must be viewed in "real" or inflation-adjusted terms. A rise in the number of dollars offered for goods increases aggregate demand—but a resulting rise in costs and prices has the opposite effect: To produce the same amount of goods, suppliers will demand more money than before the excess of aggregate demand was created. The Keynesians had neglected money's functions as a stable unit of account and a stable store of value—and thus, inexorably, undermined its function as a medium of exchange.

Friedman's Insight

Monetarists gained primacy in the wake of the Keynesian debacle. Their theory enjoyed its greatest prominence in the late 1970s and early 1980s. Rueff was a friend of Milton Friedman, and shared many of the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

great monetarist's central views—chiefly, that the growth rate of the money supply has a tremendous impact on future inflation and rates of real economic growth. But Rueff offered a different definition of money than those embraced by most monetarists.

Rueff's stress on official international currency reserves was a major departure from most monetarist writings, which focused on essentially parochial measurements: the domestic money supply. To their credit, such leading monetarists as Friedman and Allan Meltzer have sought a more workable, international measure of the money supply. Their models, however, Lehrman argues, take insufficient note of the importance of changes in the value of money—of money's role as a store of value.

Domestic monetarists have assumed that the demand for money tends to be stable, basing their assumption on empirical observation of periods of dollar–gold convertibility or a stable dollar price of gold. Assuming stable demand for money, an increase in its supply should have predictable impacts on production and inflation.

But people's demand for money is highly volatile when the value of money is highly variable, as it was in the 1970s and early 1980s. This volatility undermined monetarist predictions throughout the 1980s. Early in the decade, such leading monetarists as Beryl Sprinkel worried about "excessive" rates of monetary growth—when in fact tight money was helping to cause and deepen the recessions of 1980–1982. Later, the monetary aggregates gave off false signals of a major inflation (1983–1984), and generally failed to forewarn against an inflation (1989–1990) that did occur. Increasingly, monetarism, both as a policy prescription and a predictive tool, was discarded.

Supply-Side Addition

The observed importance of money's value led a number of supply-siders—among them Alan Reynolds, Jude Wanniski, Wayne Angell, and Manuel Johnson—to begin formalizing what for some had been a long-held notion that the best leading indicator was not the supply of money, but the price. As a proxy for the "price of money" against all goods in the economy, they argued that gold, or some broader basket of commodities, provided the best leading indicator—some went so far as to say it was "instantaneous"—of the direction of monetary policy.

The model compiled an enviable record in the 1970s and early 1980s. Price rulers correctly predicted major inflations under both Nixon and Carter, and a substantial deflation following the appointment of Paul Volcker as Federal Reserve chairman. Some price-rulers, such as Wanniski, recommended simply targeting the price of gold. Others, such as Angell and Reynolds, tended to add other commodities. Perhaps the most sophisticated price rule, developed by Manuel Johnson and his staff at the Fed, included exchange rates and the yield curve for bonds as well. Price-rule forecasters, however, were in general agreement that even when such a policy is not followed, gold and commodity prices provide the best leading indicator of the direction of current policy, with rising prices on the targeted commodity or index meaning too much money, falling prices not enough.

The Rueffians disagree with the view that there is one price, or group of commodity prices, that consistently and simply signals future changes in inflation. Instead, they insist, given the function of money as a medium of exchange, monetary policy changes made today will not immediately or reliably be reflected in changes in the price of commodities. Since some monetary balances are not immediately used to buy goods and services, the price of gold and other commodities does not respond immediately to changes in central bank policies. Thus, while agreeing that commodity prices will eventually rise following the creation of excess money, the Rueffians stress that this process of arbitrage may take up to two years to run its course. The process is not instantaneous. Yet the price rulers' understanding of money at times seemed to assume the existence of a frictionless, barter economy in which money is merely a "veil," or an arbitrary numerator. Consider this passage from the seminal article on supply-side theory by Wanniski:

> When money supplies and currency exchange rates change, the terms of trade remain unchanged....If a bushel of U.S. wheat can be traded for a bottle of Italian wine when $1 equals 100 lire, then, even though the United States devalues the dollar so that it is only equal to 80 lire, the bushel of wheat will still trade for the bottle. There may be a temporary confusion, which economists call "money illusion," but it is only temporary....As a result, the dollar price of U.S. wheat goes up by the full amount of the devaluation. Or the lire price of Italian wine goes down.

Of course, such changes, the Rueffians agree, are eventually arbitraged through the system. If money were only a "unit of account," then changes in the value of a currency would instantaneously reflect themselves in gold or a broader basket of commodities just as Wanniski describes. The long run, however, can take years, as existing contracts, loans, surplus labor and goods, and other arrangements adapt to the new monetary reality.

In the meantime, the use of the dollar as a medium of exchange absorbs some increases in dollar reserves, and delays the process by which their creation is manifested—first in rising commodity prices, then later in prices for finished goods. The demand for the dollar in this role of reserve currency, and its supply by the Federal Reserve and other central banks, can often dwarf, frustrate, and confuse readings of domestic monetary policy that fail to note the dollar's role as the world's reserve currency.

Limitations of the Price Rule

The limitations of the price rule as a forecasting tool are best illustrated by two periods during which gold and commodity prices were held relatively stable—yet inflation rose and fell in dramatic fashion. The dollar price of commodities, for example, remained within a fairly narrow band since 1983. The price of gold seldom strayed above $425 or below $350 since then, and never moved above $500 or below $290. Nor did the International Monetary Fund's commodity index, which James

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Baker and the other G-7 finance ministers agreed to use as an important target in 1987, move up or down by more than 20 percent through 1991.

Yet since January 1987—without major changes in tax or other fiscal policies—the United States and its major trading partners endured a stock market crash, twin peaks of inflation, and a zigzag recession, all to the general surprise of price-rulers. Changes in gold and commodity prices failed to point to any of these events, and indeed, often pointed against them.

Something similar appears to have taken place during the Bretton Woods period—worth mentioning here, because it stands as something of a golden age in the model of price-rulers. From 1944 to 1971, under Bretton Woods, the dollar was held constant in terms of gold at or near $35 an ounce. Yet the U.S. consumer price index more than doubled over the same period. Rueff never tired of pointing out this disparity. To him it suggested that although the system officially made the dollar as good as gold, it had established a backdoor means of producing excess money: the dollar reserve system. There were, simply, too many dollar reserves to maintain currency convertibility at the $35 price. Rueff's colleague Triffin made parallel observations, and both predicted from the late 1950s onward that the system would come unhinged. Theirs was the only sustained and systematic forecast of the old order's collapse.

Money as "The Final Asset"

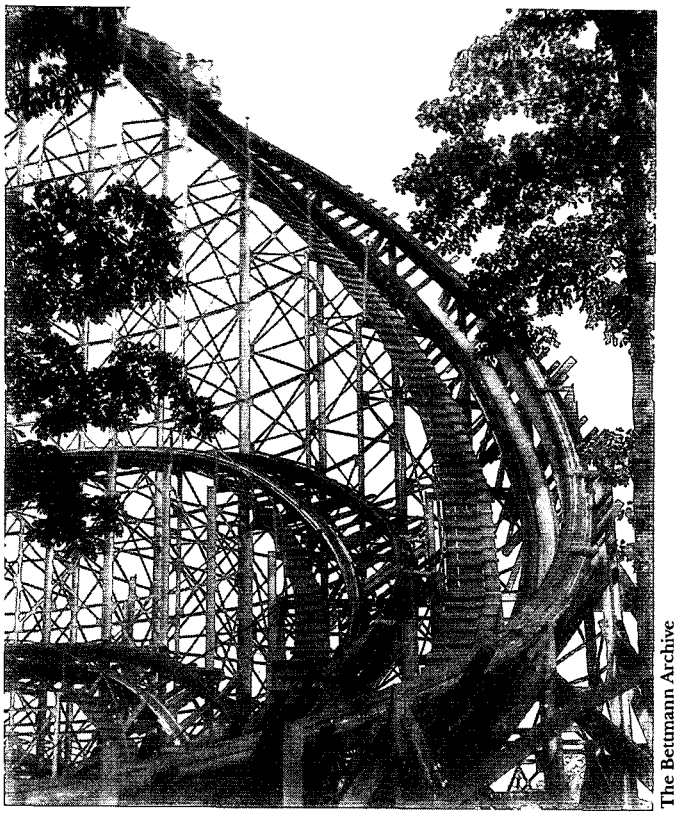
Rueff's critical insight is the understanding that things that do not seem to be money—dollar reserves created or held by foreign central banks—can in fact become money itself, or at least, a de facto equivalent to money. These reserves consist of dollars and dollar credits such as Treasury securities, which foreign central banks typically hold at the Federal Reserve. To understand how these reserves resemble money—giving rise, in Rueff's view, to a double-credit system that promotes the creation of excess money—we must start from an understanding of what money itself is.

Money, Mueller argues, is "simply, the final means of payment or settlement. It's the thing at the base of the market and financial system, or at the end of the line.

"You can't ask for any more ultimate means of payment; you can only take the money somewhere else and offer to exchange it for something else—real goods, services, claims, or credit."

Like any simplification, this definition runs some risk of missing something important. Yet it seems to incorporate the important insights of the prominent existing schools, distilling their varying emphasis on each of money's important roles into a more basic understanding of what money is.

If money is indeed the final means of settlement, the thing at the end of the line, then of course money will be the primary medium of exchange—by definition. It will also be the primary unit of account: People want to measure their exchanges, and define their contracts for future obligations and exchanges, in terms of the final, ultimate instrument they can demand as payment. And they will care deeply about changes in the value of that instrument, since it is a primary reward they will receive for working or supplying goods or taking risk.



The Bettmann Archive

Since January 1987—without major changes in tax or other fiscal policies—the U.S. and its major trading partners endured a stock market crash, twin peaks of inflation, and a zigzag recession, all to the general surprise of price-rulers.

Under a pure dollar standard, only legal-tender dollar bills or deposits at Federal Reserve banks would be the true, final means of settlement. If all international accounts were immediately settled in this way, one could simply measure the number of Federal Reserve deposits and notes and have a first approximation of the creation (or potential creation) of new legal tender or "final money." Similarly, under a classical gold standard, as Rueff observed, one could simply track movements of monetary gold, since gold and gold alone would function as the final means of international payment.

Under the reserve currency system, however, accounts do not have to be settled in this way. A foreign central bank that holds a claim on a dollar, or decides to purchase one, does not have to demand dollars as final payment. There is a near-final asset, a bank's reserve credit for a dollar, that is virtually as good as the dollar bill itself, just as the dollar itself was theoretically once "as good as gold."

Your Own Checking Account

The system can best be understood, perhaps, by analogy to your own personal checking account. Suppose, for example, that of all the checks you write, one in four went uncashed for months, even years. Suppose also, however, that this rate was not constant. Sometimes, for three or four months at a time, many more of your checks were used as money; sometimes, fewer.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

If the system worked this way, two things would follow.

First, your checking account would always have a larger balance than you would think if you simply subtracted all the checks you had written, because some share of them would always be floating, uncashed. In fact, you would constantly be able to write extra checks, to spend an amount equal to the uncashed checks you had written, providing you were reasonably prudent and didn't behave as if the privilege had no limits.

Second, the rate at which those checks were cashed or uncashed would be a critical factor in your finances. According to Lehrman and Mueller, this is what happens with the international creation of dollar reserves. Foreign central banks do not have to cash their checks from the United States. They may, and sometimes, do. But many of the checks written are never cashed. The increasing promises of the United States to pay are held and traded as actual money. People, banks, and companies around the world trade such uncashed checks over and over as if they were money itself.

Air of Unreality

These uncashed dollar credits, so long as they are not spent on goods and services, serve, in effect, as double credits—giving the bearer a future ability to claim real goods and services, without a corresponding subtraction from the U.S. "checking account."

There is an air of unreality to the system. If other countries wanted to, they could demand payment in goods or greenbacks for all their Treasury-bill credits. At that point, the U.S. would either have to print the dollars, or contract its monetary policy, tightening credit and curtailing someone else's ability to demand goods.

Similarly, under Bretton Woods, many dollar reserves were held under the perception they were as "good as gold." Even when the buildup of dollar reserves outran the U.S.'s monetary gold, few demanded payment in gold. Rueff's critique of Bretton Woods was based on his observation that there was just such a double-credit system developing for foreign dollar claims on gold. In theory, gold was the final means of payment. Yet from 1951 to 1960, Rueff noted, only $5.3 billion flowed out of the U.S. Treasury in gold. Meanwhile, the U.S. balance of payments deficit exceeded $18 billion. The remaining $13 billion accumulated in the form of foreign holdings of dollar claims. The trouble was not an outflow of gold from the United States, but the lack of an outflow. According to Rueff:

> More specifically, the process works this way. When the U.S. has an unfavorable balance with another country (let us take as an example France), it settles up in dollars. The Frenchmen who receive these dollars sell them to the central bank, the Banque de France, taking their own national money, francs, in exchange. The Banque de France, in effect, creates these francs against the dollars. But then it turns around and invests the dollars back in the U.S. Thus the very same dollars expand the credit system of France, while still underpinning the credit system in the U.S....The country with a key currency is [thus] in the deceptively euphoric position of never having to pay off its international debts. The money it pays to foreign creditors comes right back home, like a boomerang....The functioning of the international monetary system is thus reduced to a childish game in which, after each round, the winners return their marbles to the losers.

America's "Exorbitant Privilege"

The reserve currency system has conferred certain benefits on the United States. By Mueller's estimate, approximately $500 billion in U.S. trade and budget deficits have been "monetized" by foreign central banks. That is, we have been able to buy $500 billion worth of coffee, copper, television sets, automobiles, and other real goods and services, without having to trade an equal amount of goods and services in return. Indeed, we have not even had to print dollar bills, or borrow them from the private credit markets, to pay for those goods and services. Instead, foreign central banks have accepted dollar reserves—credits for dollar bills, or kited checks—which they hold and trade as money itself.

Why on earth are countries willing to allow the United States this "exorbitant privilege," as Charles de Gaulle once called it, of never having to really settle its account?

One answer, as economist Robert Mundell has argued, is that the "gains from using a common international medium are so great that some means of creating one have always been found." Under Bretton Woods, gold generally could not be used for payment, and there were nominally national currencies. Many thought this meant that there was no "international" money at all.

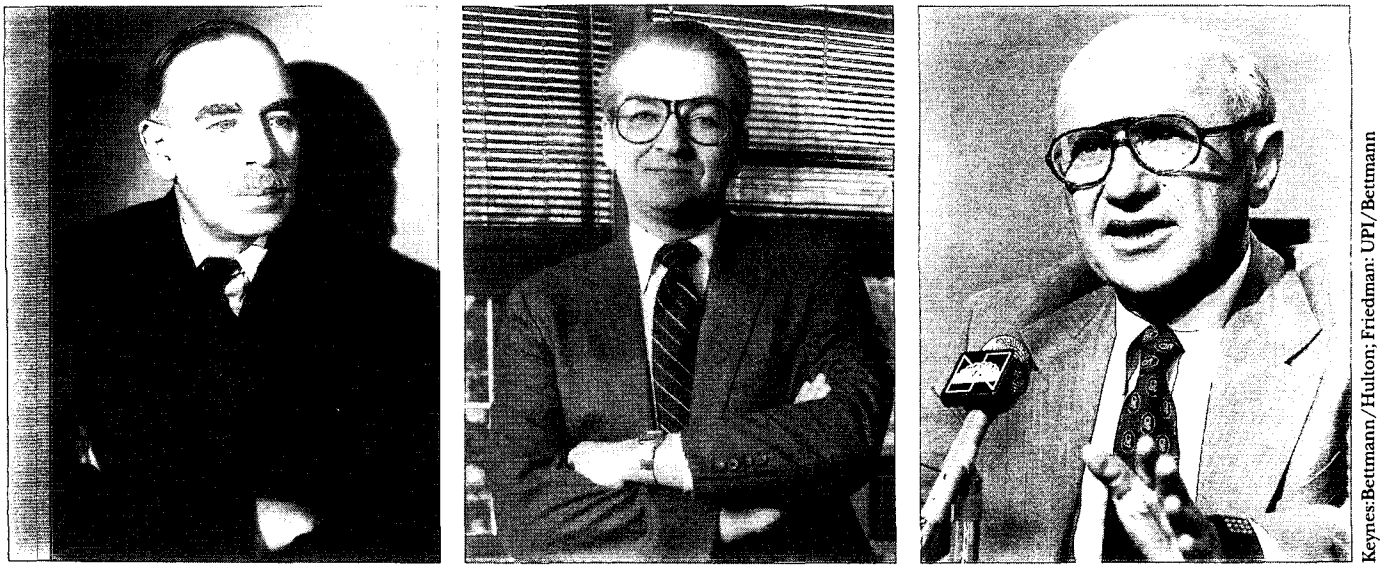
Yet with each currency pegged to the dollar, and the dollar at least nominally linked to gold, the dollar by law and by practice was in fact the world's reserve currency. The result, as the *Wall Street Journal*'s Robert Bartley has observed, was "a close approximation to world money."

This remained partly true even after 1973, when currencies were allowed to "float" against one another, creating what was mistakenly called a "free market." Most countries, as Stanford economist Ronald McKinnon noted in a recent presentation to the Alexis de Tocqueville Institution, continued to pay primary attention to their exchange rate against the U.S. dollar. In a true world market for money, with n number of countries, each country would have to watch its exchange rate against that of every other country. The total number of calculations by all the countries would approximate $(n - 1)$ squared, or, for 140 countries, more than 19,000 exchange rate calculations. Under the dollar reserve-currency system, there are only $n - 1$ critical rates—each currency against the dollar—or 139 such calculations.

Such a system, Lehrman and Mueller note, has always tended to evolve even when it is not purposefully created by international authorities. The collapse of the fixed-rate gold standard in the 1920s, for example, did not abolish the reserve currency system, nor, despite predictions, did the precipitous declines in the value of the dollar in 1971–73 and 1978–80.

Why then the reserve currency system? Because while inferior to some other designs, it is more efficient than having no international money at all.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Keynes:Bettmann/Hulton; Friedman: UPI/Bettmann

John Maynard Keynes, Jude Wanniski, and Milton Friedman all have had an important influence on the New Rueffian Economics.

Why the U.S. dollar? As much as anything else, because it is there. Its quantity and value are ample for the medium-of-exchange purpose, compared with alternatives. The United States and its dollar remain the largest single economic actor in the world. And while it is possible for the system to switch to a new reserve currency, Rueff noted, this tends to happen only after an epochal shift in world affairs—a global monetary agreement, a war, a massive inflation or depression.

Foreign central banks, Lehrman and Mueller note, do not behave as profit-maximizing actors. When the dollar is rising, Mueller has demonstrated, central banks tend to sell dollars promptly—rather than holding them and selling at the market's top. When the dollar falls, they tend to buy dollars—even as their investment continues falling in value. And countries such as Germany and Japan are more interested in maintaining their dollar reserves as a relatively stable fraction of their total monetary base. Dollar reserves for those countries, Mueller notes, seldom move outside a band of 30-35 percent of this base.

In addition, central banks may have trade and other national economic objectives in mind. For example, they have a strong political incentive to retard a fall in the dollar, lest it hurt the exports of their domestic industries, while making U.S. goods temporarily more competitive. At other times, they may be turning their attention to fighting domestic inflation and maintaining the value of their own currency. In the first half of 1990, for example, Japan sold an estimated $10 billion in dollar reserves in an effort to defend the value of the yen. Over the same period, U.S. monetary authorities were expanding domestic credit. Thus by a purely domestic view of dollar creation, U.S. monetary policy should not have been prompting a recession. But action by central banks like the Bank of Japan was the single leading cause of a sharp slowdown in growth of world dollar reserves, and thus contributed to the recession that followed.

Measuring Excess Money

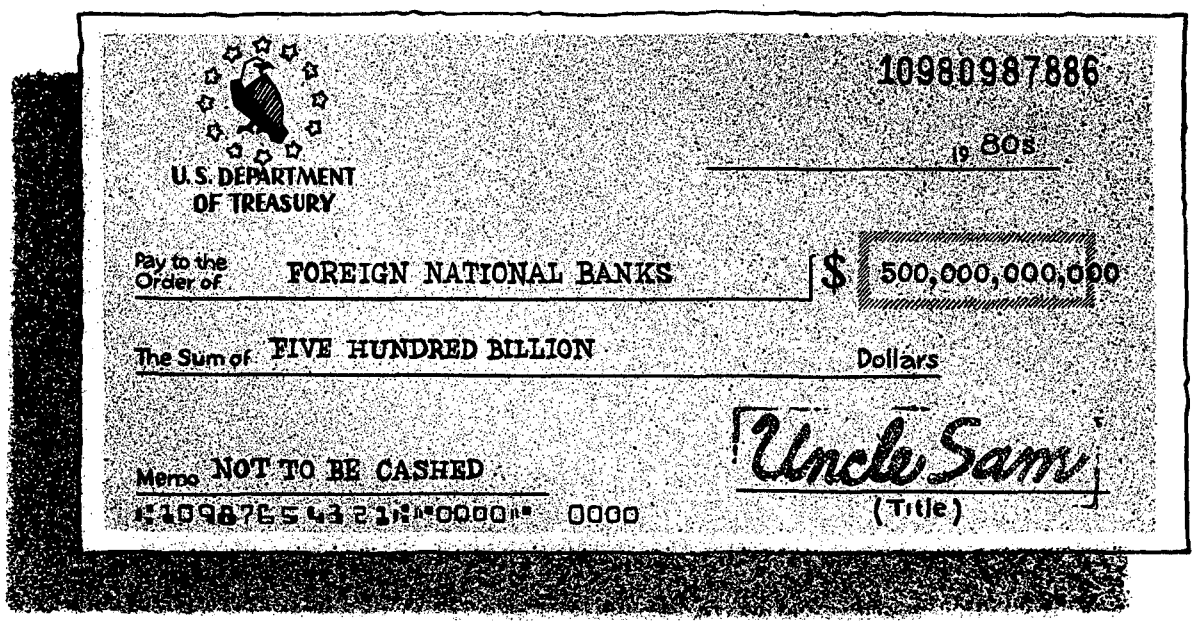
When foreign central banks engage in open market operations in dollar reserves, Lehrman and Mueller argue, the effects resemble those of the Federal Reserve's own creation of dollar reserves. Their World Dollar Base therefore includes not only a measurement of the country's own domestic creation of dollars and dollar credits, but adds in the creation of dollar reserves abroad as well. While LBMC will not specify the exact components of its proprietary base, the basic elements are: currency in circulation, dollar reserves held by commercial banks at the U.S. Federal Reserve, and dollar reserves held by foreign central banks. This measure is the firm's principal tool for gauging the effects of monetary policy. (The firm's forecasts also take account of other factors, such as changes in tax, spending, and regulatory policies.)

What does it matter if a Treasury security is sold by a U.S. firm, and ultimately bought by, say, the Bundesbank? The answer is that it matters a great deal whether an asset has been monetized, or remains in the real, private market, where supply equals demand, and the addition of $10 to Mr. X is a subtraction of $10 from Mr. Y. The U.S. Fed, and the foreign central banks, have the privilege of either cashing in dollar credits, or allowing them to remained uncashed, in effect re-lending dollars in the dollar market.

One might ask the same question, for example, of the U.S. Federal Reserve itself. What difference does it make if the central bank buys a Treasury security off the market from some private actor? All that has happened is that the ownership of two assets has changed hands, and if it wanted to, the Fed could sterilize this action by selling the Treasury security back. But the Fed also has the privilege of not undertaking such a compensating reaction. The Lehrman-Mueller hypothesis, in its reduced form, simply asserts that foreign central banks, in deciding whether to cash some U.S. checks or hold them as official dollar reserves, have a share of the same discretionary power.

When a foreign central bank decides not to cash one of its checks from the United States, it gains a credit yet effectively allows the United States to recycle dollar purchasing power into its own account. It is granting the U.S., for the time being, extra money—and deferring its

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Drawing by Scott Freeman for *Policy Review*

So long as foreign central banks are willing to accumulate uncashed checks, the United States has every incentive to spend beyond its means.

use of dollar credits to purchase goods and services until a later date. Dollar reserves arising in this fashion are thus, as a double credit, excess money. The United States gets purchasing power that would otherwise have been extinguished from its account. And the foreign central bank gets deferred purchasing power—but it is purchasing power, in the form of dollar credits, that the foreign central bank, at this point, doesn't want to spend.

Since dollar reserve holdings by foreign central banks make up more than half of the World Dollar Base, the Lehrman-Mueller aggregate is largely an effort to measure not just money itself, but the creation or accumulation of excess money. As Rueff observed, it is not money that causes inflation. It is the over-supply of money. In the long run, such excess dollar creation must come home to roost in the form of higher prices.

Domestic monetarism assumes that one must go through an intervening step, calculating a "reasonable" rate of non-inflationary growth in the money supply from historical averages. The Lehrman-Mueller hypothesis simply asserts that it is broadly possible to measure the excess money as it is created. Monetarists have always been open to the theoretical utility of such a measure, if it could be found. "The definition of money," Milton Friedman and Anna Schwartz wrote in 1970, "is an issue to be decided not on grounds of principle as in the *a priori* approach, but on grounds of usefulness in organizing our knowledge of economic relationships. There is no hard and fast formula for deciding what total to call 'money.'"

Lehrman-Mueller Predictive Record

For two decades prior to the creation of LBMC, Lehrman kept a close eye on the movements of foreign reserve dollars as a key indicator of changes in monetary policy. In 1980, he argued in the *Wall Street Journal* that without monetary reform, economic growth under a prospective Reagan administration would be in jeopardy. Tax cuts, while necessary, he argued, would fail to restore economic growth as soon as hoped—a fear that proved accurate when Kemp-Roth passed in 1981, yet the nation then endured a two-year recession. (Some forecasters later blamed the recession largely on the back-ended nature of the tax cut, which delayed some rate reductions until 1982, 1983, and 1984; others blamed a mix of tight money as well. Lehrman was one of the first.) In 1985, while some saw the Reagan boom coming to an end, Lehrman wrote confidently that a combination of further tax cuts and more stable monetary policy made another several years of solid growth possible. At a time when many serious observers regarded a 7 percent jobless rate as the natural, full-employment level, Lehrman called it "unacceptable" in the *New York Times* and privately projected still further reductions in unemployment if tax reform passed.

From the summer of 1986 to early 1987, foreign central bank holdings twice spiked to annual rates of growth of more than 25 percent. They then declined sharply, leading Lehrman to fear a partly artificial spike in stock prices akin to the run-up Rueff observed in the 1960s. "Recent signs of a steep inflation in the value of financial assets suggest that the world may be in for yet another round of shocks," he wrote in the *Wall Street Journal* on January 28, 1987. "The flight from the dollar takes the form of a flight to financial assets, as stock prices explode around the globe, while the world's premier currency grows shakier in the hands of those who would use it as a weapon in an incipient trade war."

At the time, Lehrman's fear was generally dismissed by most investors. It proved prescient in October, how-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ever, when the effects of unstable monetary policy helped bring world financial markets to a stunning crash.

By the following spring, Bell, Mueller, and Cannon had established their own firm—soon to become Lehrman Bell Mueller Cannon. Mueller translated the Rueff monetary concepts into an econometric model for inflation, industrial production, interest and currency exchange rates, and the stock market. LBMC published its first Economy Watch report in May 1988, predicting a "1990 recession," with "rising inflation" for the first half of 1989. Consumer price spikes, Mueller predicted, would become "next year's chief worry." Bell, projecting basic political trends based on the economic background, wrote that November that clients should expect a tax-hike budget deal in 1990, but an easing of protectionist pressures due to a falling U.S. trade deficit. He entitled his November 1988 advisory, "The Bush Administration: Coping with Stagflation."

After Mueller refined his forecasting inputs in 1989, he began to specify that the recession would take an unconventional "W-shaped" form, with a decline in industrial production that bottomed in late 1989 and early 1990 to be followed by a "mild upturn" in 1990's second quarter, only to dip again in a "second V" later in the year. He had similarly projected a pair of "twin peaks" in inflation, with a 1989 spike of 6.5 percent inflation to be followed by a "false dawn," only to give way to a second peak above 7 percent in 1990.

The record has not been perfect. In 1991 the firm expected a major strengthening of the dollar against the yen followed by a year-end decline; in fact the dollar-yen rate has been relatively steady since spring. In estimating the timing of both the recession and the recovery, Mueller erred twice, at least in terms of gross national product. Although GNP dipped in the second half of 1989, it did not fall enough to enter negative figures until mid-1990. And while Mueller and Lehrman originally predicted a 3 percent GNP upturn for the second quarter of 1991, the latest revision for the quarter was slightly negative; GNP recovery instead began in the third quarter.

At Odds with Other Forecasts

If LBMC's timing was ahead by a quarter here and there, though, the vast majority of forecasters predicted there would be no inflation spike or recession at all for 1989 and 1990, and likewise, were bearish on stocks and economic growth for 1991. "A recession is at least three years away, say 62 percent of the forecasters surveyed by the National Association of Business Economists," wrote Robert Samuelson in the *Washington Post* in late 1989. The National Bureau of Economic Research's recession-risk model placed the odds of a 1990 slump at one-in-ten in January 1990. The inflation outlook of most economic forecasters was equally sanguine.

The Rueff school agrees with fiscal supply-siders that taxes, regulations, and other subtractions from the return to capital and labor have an important impact; it only adds that, particularly after so much has been gained in the realm of tax policy, monetary policy is now the key arena. It even agrees with the old Keynesians that deficits, particularly when run by a country with the reserve currency privilege, can have a short-term stimulative impact—while stressing that the way the deficit is financed by the Fed and foreign central banks matters tremendously. Accordingly, Mueller's forecasts are not based simply on movements in central bank dollar reserves, but take into account the size of the monetized deficit, and the after-tax return to work and investments.

What is interesting is that, even given all these points of common agreement with more established schools, the Lehrman-Mueller view has so often forecast events completely at odds with them. And, in general, it has fit closely with economic events.

Cycle of Stagflation

The Lehrman-Mueller hypothesis has implications for a broad range of policies, from interest and exchange rates to the budget and trade deficits. At the core lies a simple but bracing assertion of importance to every politician, every academic economist and journalist, and every would-be privatizer or tax-reformer or deficit-cutter from Capitol Hill to Budapest to Buenos Aires: The international reserve currency system guarantees recurrent stagflation.

The international reserve currency system guarantees recurrent stagflation.

It is in the very nature of the system to encourage budget and trade deficits for the reserve currency country, the United States. These emerge as the natural result of a special checking account granted to the U.S., the reserve currency country. So long as foreign central banks are willing to accumulate uncashed checks—usually Treasury securities—the United States has every incentive to spend beyond its means.

It also produces inflation in the dollar—a result of the incentive for the U.S. and foreign central banks to create dollar reserves not demanded by the market, seemingly without cost.

By radically increasing the long-term risk of holding money, it bids up long-term interest rates, the 30-year Treasury bond having remained above 7 percent for nearly 20 years.

This reduces long-term capital investment and formation, and depresses real economic growth. At the same time, it contributes to the short-term focus of workers, managers, investors, and policy-makers—a tendency often decried, but never remedied under reserve currency regimes.

Finally, given the length of the arbitrage process—up to two and one-half years, on Mueller's model—the reserve currency system also promotes delayed response and overreaction by policy-makers.

Hence, it is characterized not just by a smooth lowering of real growth below where it would have been under

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a non-reserve currency regime, or a smooth increase of inflation above where it would have been—but by bumps and jerks, sudden peaks and valleys.

It is, then, a system of artificial buildups and crisis selloffs, from the dollar panic of 1979-1980 to the stock market crash of 1987; from the twin peaks of inflation in 1989 and 1990 to the double-dip industrial recession of 1989-1991. As Lehrman wrote in 1975:

> It is in the nature of an official reserve currency system to encourage the accumulation abroad of the reserve currency... in both private hands and in the currency reserves of foreign central banks. For reasons to be discussed below, these reserve currencies almost inevitably become overvalued. Later, under changed circumstances and often in periods of stress and bitter national conflict, the crumbling reserve-currency system cannot forestall the disorderly liquidation of these same currencies.

And because the dollar is the international reserve currency, the system tends to cause these effects not only for the United States, but for the entire world.

The inflation takes the form first of a rise in the price of stocks, bonds, equities, and foreign exchange, the most liquid assets in the system. It then moves, over a period of months and years, into secondary markets—producing some temporary increases in real production, and price hikes in sensitive commodities. Finally, finished-goods prices rise, and with them, long-term interest rates. The Fed and other central banks, generals fighting an enemy that has already moved, tighten credit; growth slows and becomes negative; commodity prices slump; and the cycle begins again. The reasons for these systemic tendencies, it should be noted, are as much practical and empirical as they are essential. It is theoretically possible that politicians and central banks will acquire an incredible discipline and wipe out the deficits even under the present monetary system, which allows them to be readily financed, at least for the U.S. It is unlikely, though. As Rueff observed, if political authorities are unwilling to establish a system of mild discipline that continuously, smoothly prevents such reserve dollars from accumulating, they are unlikely to apply the discipline required once the cycle has started.

The Lehrman-Mueller hypothesis asserts that it is possible to measure excess money as it is created.

The Exceptional '80s

How then, one may ask, were the United States and world economies able to grow at such a solid and rapid rate, and with relatively low inflation, in the 1980s?

The answer, according to Lehrman and Mueller, is that dramatic tax-rate cuts and regulatory reform—tentatively beginning under Jimmy Carter, and greatly accelerated by Ronald Reagan—produced an equally dramatic stimulus to growth. This elicited from the existing reserve currency system nearly all of the good that fiscal improvement alone can provide. The annual growth rate of the 1980s was almost 3.5 percent if we discount the 1981-1982 recession, and almost 3 percent if we count it.

Gains of this magnitude from tax and regulatory reforms may not be repeatable, however. Precisely because tax rates were so egregiously high by the late 1970s, they cannot be lowered again so dramatically (barring future, major tax increases). Even slashing the present top marginal tax rate on income to 15 percent from 28 percent, or nearly in half, would only improve the after-tax reward to income to 85 percent from 72 percent. That's an improvement worth seeking, but not one of comparable magnitude to the increases of the '80s, when the after-tax reward at top income levels rose from 30 percent to 72 percent.

Lehrman, Bell, and Mueller were all important players in the collection of 10 to 15 economists, political scientists, and politicians who were prime movers in the tax rate reductions of both 1981 and 1986. Their message today is hardly that those changes were not a good thing, or that further such reductions—such as a cut in the tax rate on capital gains, along with indexing the calculation of such gains against inflation—would not be a good thing. Rather, they point out that even the tax cuts of the 1980s—enacted under the handicaps of the reserve currency system—were unable to increase the real rate of growth to a sustained 4 to 5 percent level, or bring long-term interest rates below the 7 to 10 percent range, or wipe out the budget deficit. And while there may be further, marginal improvement in tax policies, they can never again be as dramatic.

Similarly, in the '80s, a non-repeatable improvement in the conduct of monetary policy took place. From horrendously inflationary policies in the 1970s, the Fed and foreign central banks dramatically slowed the rates at which they create dollar reserves. They began to target stable dollar prices in the form of exchange rates and commodity prices. In a monetary sense, the '80s and early '90s show the maximum gains that we can expect from either a steady "price rule" or a stable growth in domestic monetary aggregates. And those "maximum gains" include high long-term interest rates, periodic banking crises, and spikes of inflation and recession.

This is the best central bankers can do under the reserve currency system. There simply are not major gains to be had from narrowing the standard annual deviation in gold and commodity prices, or monetary aggregates, to say 2 to 3 percent, down from 5 to 10 percent. Such potential gains as might flow from marginal improvements in technique under today's quasi-price-rule system are small, and have already, largely, been realized.

Lehrman argues that the stagflation of the 1990s will be milder than that of the 1970s. Barring dramatic

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

increases in tax rates, the quirks of the reserve currency system will no longer be aggravated and exacerbated by huge penalties to saving, investment, and production. With most tax rates not only reduced but indexed, the fiscal rewards of inflation for government are no longer as large. And with monetary policy restrained from the even more capricious swings of the 1970s, growth will be higher, and bouts with inflation and recession milder, than was true prior to the Reagan-Bush Revolution. Still, the three-to-five-year cycles of inflation and recession, inflation and recession, will be here to stay as long as the international reserve currency system remains.

Monetary Origin of Deficits

The Lehrman-Mueller hypothesis also has important implications for fiscal policy and for the great debate over whether America had a healthy economy in the 1980s. Contrary to most conventional economists, Lehrman and Mueller hold that the prosperity of the 1980s resulted mainly from tax and regulatory reforms and was not simply the result of borrowing from future generations. Contrary to much supply-side rhetoric, they hold that continuously large budget and trade deficits are harmful. They contend that the deficits of the 1980s were largely a reflection of more fundamental monetary disorder, not the sudden arrival of irresponsible budget-makers in Congress and the White House.

Budget and trade deficits matter for Lehrman and Mueller in two important ways. If the deficits are financed out of private capital markets, they will drive up the cost of obtaining capital, and reduce the real rate of economic growth. In this case, the short-term stimulative effects of spending money will be dampened by rising real interest rates and a rising dollar—and what some private consumers and industries gain in domestic consumption and investment will be roughly offset by an increase in the trade deficit. This happened to some extent in the 1980s, with interest rates remaining at historically unheard-of levels for an entire decade, and the trade deficit emerging as a major concern.

If budget deficits are monetized by the reserve currency system, they will produce a time-lagged increase in inflation. But countries with the reserve currency privilege can kite a substantial number of checks in the process, even adjusting for inflation. The United States was able to float $500 billion of the roughly $1 trillion increase in debt not held by the U.S. federal, state, and local governments in the 1980s in the form of foreign dollar reserves and their subsidiary instruments. Even with this privilege used relatively responsibly, such monetization drove the prevailing rate of inflation from its historic levels (-1 percent to +2 percent) up to the 3 percent to 6 percent of the 1980s and 1990s.

Countries that lack the reserve privilege do not have such an opportunity. In the 1970s, Britain, and in the 1980s, France, both tried to revive economic growth through deficit spending and expansive central bank credit policy. In both cases, the increases in real national debt and annual deficits, as a share of output, were smaller in magnitude than the U.S. deficits since 1979. Britain's was more delayed because sterling retains a small reserve currency privilege. Yet both experiments produced rampant inflation, a recession, and a national credit crisis within a year, and both were discarded within two years.

The United States is not in the position of Britain and France. It can float a large number of uncashed checks into the international banking system, with the result, as Rueff put it, that, "from a monetary point of view, it is as if the deficits had never occurred." Thus budget deficits, and their monetization through the reserve currency system, probably will continue as long as the reserve currency system endures.

A Call for World Monetary Reform

The Rueffians thus view the '80s as an exceptional decade with laudable and significant economic reforms. Yet if there were dramatic gains in some areas of policy, others were left relatively untouched: most important, the reserve currency system itself.

"Only a reform of the monetary system," Lehrman argues, "on a scale of the changes in the tax and regulatory system of the 1980s, can produce further increases in growth on a similar scale. Only the outright abolition and liquidation of the reserve currency system—real, lasting monetary reform—can bring substantial further reductions in long-term inflation rates, and substantial increases in long-term growth."

Remarkably, given recent conditions, political leaders throughout the West have prevented the kind of protectionist revival, or hyper-inflation or depression, that has often been the result of reserve currency experiments in the past. In early 1991, Lehrman and Mueller predicted a return to modest growth rates for the United States. (4 percent for the second half of 1991, then settling back into the 2 to 3 percent range for up to several years.) A rapid expansion of dollar reserves in 1990 and 1991, they say, began an expansion that should cover 1992–1994. Then the stagflation cycle will re-assert itself—with a surprise return of inflation by early 1993. And finally, depending on how quickly central banks belatedly react to the inflation they are already creating, LBMC foresees late 1994 or 1995 as the most likely time frame for the start of the next recession.

With the reform of the reserve currency system, Lehrman and Mueller argue that long-term interest rates could be reduced, and investment and growth revived. In such a rising tide, a variety of initiatives, from capital gains indexing to poverty-program reforms to a reversal of the new tide of regulation, would enjoy added plausibility as political options.

Without monetary reform—without fixing the one wheel of the cart that is still drastically, systemically malfunctioning—such tinkering with the other wheels will produce limited benefits. True, the rhetoric of G-7 coordination and commodity stabilization will reach new heights in the monetary sphere. And new fiscal gimmicks—the balanced budget amendment, "automatic" sequestration, and others—will be trotted out periodically as a solution to problems driven, in a final sense, by the monetary system. These activities, Lehrman admonishes, "are a side-show, and a practical political waste of effort, at a time when the whole monetary foundation of the world economy needs to be changed."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Blood of the Condor

The Genocidal Talons of Peru's Shining Path

William Rosenau and Linda Head Flanagan

In April 1975, after years of battling a U.S.-backed government, the Khmer Rouge seized power in Cambodia. Pol Pot and his rabid Maoist cadres soon announced that "Year Zero" had begun; city dwellers were forced into the countryside, money was abolished, and suspected collaborators were executed. During the next three years, the Khmer Rouge carried out "auto-genocide," murdering more than one million of their fellow countrymen. The United States, weary after its 15-year debacle in Southeast Asia, and fearful of alienating Communist China, did nothing to halt the slaughter.

Today, however, Americans like to think that the United States and other Western democracies would not sit by while a new Pol Pot or Idi Amin carried out the mass murder of his own people. Indeed, the allies' military intervention in Iraq to protect the Kurds from Saddam Hussein suggests that the West now considers auto-genocide to be more than just an "internal" matter.

Maoist Insurgency

But for the past 10 years, the United States has largely ignored a totalitarian, Khmer Rouge-like movement growing in its own hemisphere. In Peru, Sendero Luminoso ("Shining Path"), a radical orthodox Maoist insurgency, is waging a campaign of unparalleled brutality. It regularly murders teachers, mayors, policemen, and other representatives of the state. Priests, foreign relief workers, left-wing politicians, trade unionists, and other "reactionaries" who offer an alternative to Sendero are routinely targeted for "selective annihilation." Peru's internal war has caused more than 23,000 deaths and more than $20 billion in damages.

Although Sendero's followers cause enormous amounts of death and destruction, it is unlikely that the movement will ever be able to seize power in Peru. Nevertheless, Sendero is threatening Peru's fragile democratic institutions and driving the country deeper into economic and social chaos. If the insurgency remains strong, it could generate thousands of refugees and threaten the stability of other Andean countries.

Peru must solve its own problems. But the United States and other countries in the hemisphere have a responsibility—and an interest—in seeing Sendero brought under control. Modest amounts of U.S. money and advice could help the Peruvian government carry out its anti-insurgent campaign more effectively.

"The Fourth Sword of Marxism"

Sendero's roots are in Ayacucho, a remote, bitterly impoverished region southeast of Lima. It was here in the late 1960s that Abimael Guzman, a philosophy professor at the National University of San Cristobal de Huamanga launched the Communist Party of Peru—Sendero Luminoso. Guzman, known to his fanatical followers by his *nom de guerre,* "Presidente Gonzalo," preaches a pastiche of Communist ideology borrowed from Mao and José Carlos Mariategui, an early 20th-century Peruvian Communist. Dubbing himself the "Fourth Sword of Marxism" (the first three being Marx, Lenin, and Mao), Guzman became to his cadres a quasi-deified "philosopher-king," in the words of Gustavo Gorriti, a leading Peruvian expert on the movement. According to Sendero, Beijing, Havana, and Moscow have long been ruled by "deviationists"; Guzman, Sendero believes, *is the world's only true Communist leader.*

In spite of the mild-mannered image he sometimes conveys (in propaganda posters, for instance, he often wears thick spectacles and carries a book), Guzman is thoroughly committed to the violent overthrow of the state. In fact, Guzman has long had a mystical attachment to the supposedly purifying effects of violence. "Violence is a universal law with no exception," he said in 1985. "In order to annihilate the enemy and preserve one's own forces, we have to pay a war cost, a blood cost, the need of sacrificing one part for the sake of the triumph of the people's war."

During the 1970s, Guzman and his followers laid the groundwork for this people's war. His teaching position at the university allowed him to indoctrinate a generation of students, many of whom wound up as teachers

William Rosenau *is coordinator of research at the National Security Program, John F. Kennedy School of Government, Harvard University, and an affiliate of Harvard's Center for International Affairs.* Linda Head Flanagan *is a national security analyst at the Kennedy School.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

throughout the region after they graduated. He also crafted a careful strategy, which he and his followers have followed to the letter. Like Mao, Guzman stressed agitation and propaganda, guerrilla tactics, and the encirclement of major cities.

"Deng Xiaoping, Son of a Bitch"

Sendero's war against the Peruvian people began on May 17, 1980, the first day of elections after a decade of military dictatorship. A systematic campaign of bombing and terror soon began. One morning in December, Lima residents awoke to grisly Sendero calling cards—dogs hanging by their necks from lampposts, adorned with placards reading, "Deng Hsiao Ping, Son of a Bitch!"

Voter intimidation has been a key tactic from the earliest days of Sendero's war. During national or local elections Sendero will call an "armed strike"; anyone who tries to vote or go to work may be killed. Fear of retaliation by the insurgents has prevented entire villages from participating in elections, and political candidates themselves are often assassinated. Sendero has murdered 139 mayors since 1984, and killed over 200 local officeholders during 1989 and 1990 alone.

"People's trials" are an important tool used by Sendero to establish its control in remote villages. Town leaders are rounded up, accused of crimes against the people, and often executed, usually by stoning, strangulation, or burning. Once Sendero is in charge, it enforces a rigidly puritanical discipline over the local population: prostitution, homosexuality, drinking, and other vices are punished by flogging and death. Anyone caught collaborating with the military is brutally murdered; last spring, for example, five peasants—including one pregnant woman—were decapitated by Sendero after they had been seen greeting a handful of Peruvian marines. The unborn child, according to military officers, was cut from the woman's womb.

Catholic priests and nuns, an obvious threat to Sendero's total control over rural communities, have recently become targets. During the past eight months, the movement has murdered a Canadian nun, two Polish priests, and one Italian clergyman that the Vatican sent to Peru. "They've killed eight members of the Church so far," says Carlos Chipoco, a human-rights lawyer in Lima. "This is a first in the history of Latin American guerrilla movements—the deliberate killing of priests and nuns."

Indeed, anyone who helps Peru's poor faces death. Aid workers, foreign investors, United Nations officials, and others have been murdered in recent months. Last September, for instance, Sendero bombed a privately run food-assistance center in a Lima slum, leaving almost 2,000 local families with nothing to eat. The insurgency's goal, says one Peruvian military officer, is "to ensure that there are as many poor people as possible."

The movement has grown rabidly xenophobic, and foreigners of all kinds have been attacked. Following the 1990 election of President Alberto Fujimori, a Peruvian of Japanese descent, Japanese–Peruvians have been the subject of a particularly scabrous Sendero propaganda campaign. In words reminiscent of traditional European anti-Semitic literature, Sendero recently claimed that the

Reuters/Bettmann

Victims of Sendero violence. Peru's internal war has caused more than 23,000 deaths and more than $20 billion in damages.

Japanese in Peru have succeeded only by "promoting clandestine prostitution in filthy little hotels in the slums or by exploiting poor people through their small grocery stores on every corner in working-class neighborhoods."

The Coca Connection

Since the early 1980s, Sendero has financed its propaganda and guerrilla operations by taxing drug traffickers who use insurgent-controlled airstrips. The Upper Huallaga Valley, a jungle region northeast of Lima, produces more than 60 percent of the world's coca leaf, the raw material used by Colombians to produce cocaine. *Narcos* who take off or land at these airstrips are charged $10,000–$15,000 per flight, generating more than $30 million a year for Sendero, according to the RAND Corporation.

Sendero has also been able to manipulate the 300,000 peasants who grow coca in the valley. Before the insurgents came to the valley, traffickers frequently cheated and routinely abused the *cocaleros.* By the late 1980s, Sendero cadres began operating as middlemen between the growers and traffickers, protecting the *cocaleros* from unscrupulous buyers and demanding higher and higher prices for coca leaf.

During this same period, coca and its control became the dominant issue between the United States and Peru—particularly with respect to the Upper Huallaga Valley. The State Department trained and equipped Peruvian counternarcotics police, established a program to destroy coca bushes, and built a heavily fortified anti-drug base in the heart of the valley.

But as Peruvian and American officials discovered, peasants rebelled when their livelihoods were threatened

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

by the eradication program. Sendero relentlessly exploited the situation, claiming that American imperialists and their Peruvian lackeys were waging war against the peasant population of the Upper Huallaga. Sendero won many converts, and it became perilous for police and other government forces attempting to carry out anti-drug operations in the valley. By 1990 coca eradication had largely ceased.

A new agreement between the two countries, signed last year, was aimed at solving this security problem. As part of a $94 million economic and military aid package, the United States was to provide $10 million to train and equip three Peruvian army counterinsurgency battalions and to provide other assistance to the country's 72,000-man army. These units were to have been used to fight the insurgents in the Upper Huallaga to provide security for counternarcotics operations there. A small number of U.S. soldiers—numbering fewer than 50—were to assist in the training. Last fall, however, the U.S. Congress deleted the $10 million in military aid, citing the Peruvian armed forces' dismal human rights record. While $24 million will still go to the military, almost all of it will be for drug interdiction.

Town leaders are rounded up in "people's trials," and often executed by stoning, strangulation, or burning.

Lima's Brutal Response

The Peruvian government's response to insurgent violence has been brutal and ineffective. Extrajudicial killings, torture, disappearances, and other crimes by the military have been carefully documented by human rights organizations.

Last June, for instance, a Peruvian Senate investigative committee concluded that the army was responsible for raping, torturing, and murdering several peasants in Apurimac. Rapes by the armed forces in military-controlled areas have been "so numerous that such abuse can be considered a common practice," according to a U.S. State Department report issued last fall.

Such abuses come as no surprise, given the army's poor training, chronic shortage of funds, and lack of civilian control.

The army's anti-Sendero strategy—which until recently has consisted of little more than trying to kill as many insurgents as possible—has also made it likely that innocent civilians will be abused by soldiers hunting for *senderistas*.

There have been some success stories. During 1989, for example, General Alberto Arciniega, a military commander in the Upper Huallaga, enlisted the support of local peasants in the battle against the guerrillas. And in recent months, the army has begun building roads, distributing food, and conducting other forms of "civic action" as part of a new "pacification" strategy. The military, Fujimori said last fall, must try to defeat Sendero by being at "the vanguard of the struggle for development and social justice."

But despite years of repression and pacification, Sendero continues to operate at will throughout the country. Today, the movement's 1,200 hard-core militants can mobilize 3,000 guerrilla fighters, and can call upon an additional 40,000 to 60,000 followers, according to Senator Enrique Bernales, a prominent socialist and a widely respected authority on the insurgency. Last August was a particularly violent month: Sendero killed 397 people, including 80 police officers.

Lima, and the shantytowns that ring it, are the new battleground in Sendero's war. They "have become true steel belts that will enclose the large bourgeoisie and their repressive forces," proclaims recent Sendero propaganda. One key area is the Ate-Vitarte slum, about five miles from the center of Lima. Ate-Vitarte is strategically located on the central highway linking the capital to the country's food-producing regions, and Sendero is struggling with traditional left-wing (but anti-Sendero) political parties for the allegiance of its residents.

Sendero's drive into the shantytowns signals a dangerous new stage in its conflict with the state. The movement describes this phase as one of "strategic balance," in which its army will be pitted directly against Peru's military forces. The result, it claims, will be a million deaths.

What the U.S. Can Do

The United States and other nations are already committed to helping the people of Peru. Last year, the United States fed one in seven Peruvians, and this year it has pledged $84 million in various forms of support—including $19 million for civilian anti-drug operations. The problem is that none of this money is going directly to fight Sendero Luminoso.

With just a minor shift in funds—away from debt service, for instance—the United States could assist Peru in setting up some modest but potentially effective counterguerrilla measures. The following proposals are low-cost steps that Peru could take quickly.

• **Strengthen the police.** The United States should encourage Peru's 70,000-man police force to play a greater role in the nation's internal war. During other successful counterinsurgency efforts in Northern Ireland and Malaya, for example, the British officials who ran the campaigns correctly saw insurgency as more of a police than a military problem.

The police are the natural instrument for penetrating and disrupting an organization like Sendero. In most instances, policemen are much closer to the population than soldiers are. In all likelihood, they would have a better sense of who the insurgents are and where they are operating.

But serious reform is needed before the police can be effective against Sendero. Corruption is rampant, as is the use of torture. The United States has already given money to the police to fight drugs. What we need to do

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

AP/Wide World Photos

Shining Path guerrillas train new recruits. Their strategy includes the deliberate killing of priests and nuns, and of anyone who helps the poor.

now is pay for training—including human rights instruction—and higher salaries to discourage the kinds of abuses for which the police are feared. Similar U.S. financial support for salary increases for Mexico's Federal Judicial Police has helped reduce corruption.

◦ **Set up an amnesty program.** The military recently began offering a limited amnesty program for pro-Sendero peasants. But the government needs to do much more. Today, there is no amnesty for the insurgents themselves, and there are few other incentives for cadres to leave the organization. As the United States discovered during the Huk Rebellion in the Philippines during the 1950s, a promise of farmland and safety can induce guerrillas to turn themselves in. The United States should provide funds to relocate and protect *senderistas* who surrender to authorities.

◦ **Provide witness protection.** Similarly, Peru needs a witness protection program for cadres who want to betray the organization, or citizens who want to testify against Sendero members. Today, anyone who appears in court against Sendero faces death. The Peruvian government needs to be able to offer a new life to anyone who wants to cooperate with the authorities against Sendero—perhaps with the promise of being able to relocate to Miami. Such a program would help to sow doubt and discord within the insurgent organization. The witness protection program could also be extended to citizens who wish to report human rights abuses and corruption by the security forces.

• **Pay for guns.** Firearms are in short supply in Peru, and prospective *senderistas* are reportedly required to steal weapons from soldiers and policemen. With U.S. funds, the Peruvian government could offer cash on the barrelhead for anyone who turns in a weapon—no questions asked. Such a program could make it more difficult for insurgents to obtain guns.

◦ **Clean out the prisons.** Last spring, Fujimori ordered the army into San Marcos University to root out armed Sendero cells that had been operating there with impunity. The United States should encourage Fujimori to take a similar hard line with Sendero prisoners at Lima's Canto Grande prison. For years cadres have used the jail as a training and indoctrination center. Huge slogans and revolutionary portraits adorn the walls of the prison yard, and the prisoners themselves—not the authorities—decide who enters and who leaves the Sendero wing. Such flagrant actions are an insult to the authority of the state, and they help to undermine the government's campaign against the movement. U.S. funds could be used to provide prison barges or other low-cost facilities so that *senderistas* could be moved out of Canto Grande and dispersed.

These measures are not going to crush the insurgency. In all likelihood, it will take generations for Peru to overcome the kind of social and economic conditions that have given rise to the movement. But Peru needs immediate help, and these small steps could make a difference in the country's struggle against Sendero. Our friends and neighbors in Latin America should be encouraged to participate, for they have a similar interest in preventing a genocidal catastrophe in our hemisphere.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Alexander Hamilton's Invisible Hand

He Kept Government Away from Industry

Donald F. Swanson and Andrew P. Trout

Two hundred years ago on December 5, 1791, Secretary of the Treasury Alexander Hamilton submitted to the House of Representatives his *Report on Manufactures.* Seldom has a statement of economic policy been more misunderstood. Many observers past and present have seen in this celebrated document evidence that Hamilton was a typical 18th-century mercantilist—that is, an advocate of state action to aid domestic producers through subsidies and protective tariffs that would keep out imports competing with domestic goods. Others have viewed the report as a forerunner of "national industrial policy." Yet neither description fits the treasury secretary's work.

Hamilton is responsible for much of the confusion about his report. In the first three-quarters of the more-than-100-page document, he described in detail the mercantilist practices of Europe and suggested that a nation's manufactures are unlikely to expand without government aid. But once committed to a theoretical mercantilism, Hamilton stopped short in his policy recommendations. The report contained no plan for "internal improvements" such as highways and canals. And Hamilton greatly disappointed American manufacturing interests that were seeking special favoritism of the sort then common in European kingdoms.

Rejecting Coxe's Draft

The first draft of the Hamilton report was written by Tench Coxe, assistant secretary of the treasury. In its original wording, it proposed almost everything a prospective manufacturer might wish from government: a protective tariff, duty-free imports of raw materials to be used in exported manufactures, land grants to industry, prohibitions on rival imports, monopoly privileges to persons pirating useful machinery from abroad for as many years as an inventor would have enjoyed a patent, and federally financed internal improvements such as roads and harbors. Coxe even called for direct government loans to manufacturers.

Hamilton deleted all these recommendations from his assistant's draft. Financial considerations were paramount for him—raising revenues and shoring up the public credit of the fiscally precarious new nation—and he was not about to let industrial policy interfere with these objectives. However conducive to domestic manufactures, internal improvements would have to yield to revenue limitations. Hamilton also rejected the anti-import logic of mercantilism. Like Jefferson of the early 1780s, he was content to leave many of our workshops in Europe, especially England. The final draft of the report made it clear that as America grew, so would its dependence on foreign manufactures.

In choosing between a protective tariff designed to stimulate domestic manufactures, and one simply designed to increase customs revenues, Hamilton chose the latter. Tariffs were then by far the most important source of government revenue, and Hamilton saw no purpose in excluding from our shores foreign goods and the customs revenues they brought with them. "Moderate duties are more productive than high ones," he remarked in 1782. High rates, he argued, would reduce legal imports and hence revenues, while encouraging smuggling. Consistent with this view, average tariff rates during Hamilton's years as treasury secretary hovered around 8 percent, far below what is considered protective.

Hamilton called in the report for increases in tariffs on selected items, but only in exceptional cases would he allow rates to rise above 10 percent. Ordinarily mercantilists recommended abolition of tariffs on raw materials destined for domestic producers. Hamilton opposed this—at least if the raw materials had consumptive as well as productive use—for he sought the revenues they poured into the treasury. Hamilton differed with orthodox mercantilists in another respect. If any of his modest tariff increases led to an expansion of domestic manufactures and a decline in revenues on rival imports, Hamilton made it plain that he intended to compensate for that loss by taxing the manufacturer benefiting from the tariff.

One small concession Hamilton offered to mercantilists was a proposal for "bounties" or subsidies on ex-

Donald F. Swanson *is professor of economics and business administration, and* Andrew P. Trout *is professor of history, both at Indiana University Southeast.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Hamilton's goal was to bring revenue into the U.S. Treasury, not to promote national industrial policy.

ports. Even these he qualified, specifying that bounties be contingent on a surplus in revenues. In other words, manufactures had to be imported from England in sufficient volume to cause a treasury surplus before bounties could be disbursed. Even had they been approved by Congress, which they were not, bounties would have been slow in coming. The treasury in the years 1792-95 recorded deficits averaging 21 percent of revenues.

No Shades of Herbert Hoover

If Hamilton's *Report on Manufactures* was no throwback to the age of mercantilism, neither was it a forerunner of national industrial policy. The notion that it was arises from Hamilton's support of a Coxe proposal to establish a private enterprise dedicated to discovering a product suitable for large-scale manufacturing. He announced his support for this enterprise, the Society for Establishing Useful Manufactures (SEUM), in August 1791, and mentioned the organization although not by name in his *Report on Manufactures.*

What is striking about the SEUM, however, is that it involved no government money, charter, or oversight. The SEUM was a private venture designed to manufacture a product at a profit. It was a far cry from Herbert Hoover's Reconstruction Finance Corporation, the Japanese Ministry of International Trade and Industry, and other models of national industrial policy, which have tried to change the structure of competition within industries, or to push the economy in the direction of specific technologies.

Indeed Hamilton's interest in the SEUM resulted not so much from a deep interest in manufactures on his part, as from his concern about the decline in the price of government securities in the late summer of 1791. Much that Hamilton did as treasury secretary has to be interpreted in light of his desire to maintain the price of government securities. He had already used the Bank of the United States, whose stock went on sale in July 1791, as a vehicle to that end. He had required that bank stock be purchased mainly with government securities and thus created increased demand for the government instruments. Similarly, investors in the SEUM would purchase company stock with government securities. These government instruments would provide the society with a source of income during its formative period; SEUM could also use them as collateral for any loans it might contract in the future.

Disappointment to Mercantilists

Congress had originally requested a report on manufactures in January 1790. Hamilton did not respond until December 1791, almost two years later. We suspect this delay reflected a reluctance to disappoint America's mercantilists. On the other hand, if the report was to be issued at all, late 1791 was an appropriate time, coinciding as it did with the opening of stock sales for SEUM. It is possible that the Hamilton report stirred interest in that enterprise. A leading scholar of early American economic policy, John R. Nelson Jr., argues that the treasury secretary was really promoting the SEUM in the 1791 report, and not manufacturing in general.

Another possible foretaste of national industrial policy was the Hamilton report's proposal for a board of three or more commissioners to promote the arts, agriculture, manufactures, and commerce. Its purposes included defraying expenses of foreign artisans moving to America and rewarding useful discoveries and inventions with premiums. Hamilton cited the Pennsylvania Society for the Promotion of Manufactures and Useful Arts as a prototype for the board.

Reading the fine print, however, we learn that financing would come from voluntary contributions and surplus government revenues, if any. Prospective recipients might wait a long while. At most the board was a small concession to soothe advocates of government involvement in economic development. Hamilton proposed no major commitment of resources. Far from anticipating an RFC or MITI or reiterating past mercantilist practice, Hamilton's recommendations in 1791 sound more like the invisible hand of Adam Smith than the guided economy of Louis XIV.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

LETTERS

Paul Roitman Bardack, Stuart E. Eizenstat, Robert J. Fersh, George G. Graham, M.D., Tetsuya Kataoka, André Ryerson, Whittle Johnston, Glynn Custred, Adda B. Bozeman, Paul Gottfried

Economic Growth for Peace

Dear Sir:

Joel Rosenberg's "Land of Promise: Restoring Israel's Economic Miracle" (Fall 1991) cogently details many of the arguments proponents of free-market reform in Israel have been offering for some time. There is another argument for economic reform not raised by Mr. Rosenberg, however, and it is an argument for peace through economic growth.

One aspect of the Intifada little noted in the Western press is that it is most violent in those Palestinian Arab communities least likely to have a middle class. To be sure, there is intense hatred of Israeli Jews in many Palestinian communities. Nonetheless, throughout the Intifada the Palestinian middle class was far more likely to hurl words rather than bullets and stones at the Jews than were their far more violent lower-class Palestinian brothers and sisters. The reasons? Undoubtedly there are many, but it would be a major policy error to dismiss the fact that middle-class Palestinians recognize that their economic fate is somehow related to that of their enemy's, and that some sort of amity must be developed and preserved between Palestinians and Jews.

As this letter is written, the Middle East peace negotiations are just beginning. What direction they might take is still unknown. Unfortunately, many of the parties are so caught up in extolling the virtues of an impatient "land for peace" formula that they have forgotten the fact that, historically, a more patient "economic growth for peace" prescription is far more likely to succeed. Suppose Mr. Rosenberg's prescriptions were to be put into effect today. Would peace immediately result? It is doubtful; but what is likely to occur is that the next generation of Palestinians and Jews, viewing each other as common beneficiaries of a larger, growing regional economy, might resort to words rather than Molotov cocktails to settle their differences. And the generation after might even cease mutual hatreds.

Remember that Switzerland, regarded today as one of the most peaceful lands on the planet, was once home to brutal, warring factions that ceased their bloodshed only when free internal trade became the rule rather than the exception. Even today, historic enemies France and Germany are developing economic accords to allow them to benefit mutually from one another's economic prosperity.

Paul Roitman Bardack
Deputy Assistant Secretary
Department of Housing and Urban Development
Washington, DC

Israel Committed to Reform

Dear Sir:

Mr. Rosenberg incorrectly portrays the Israeli economy as government-controlled and gives a misimpression of the nature of the Israeli economy. He argues that: "Without major structural change, such as large budget cuts, tax cuts and tax reform, privatization of government–owned companies, and significant deregulation of the private sector, Israel's economic crisis will worsen dramatically and exacerbate ethnic and political tension. Israeli leaders hesitate to move boldly and decisively on such reform."

These are timeworn arguments that fail to recognize the enormous progress Israel has made over the past several years in modernizing and streamlining its economy. Over the past five to six years, Israel's economy has been undergoing a transformation process. Like that of any other developing country, the government of Israel has learned that sustainable change takes time.

In 1977, the government of Israel ambitiously attempted to reduce all restrictions and controls on foreign currency. In 1984, Finance Minister Aridor's policies inflated the economy. These measures put the economy in a whirlwind, causing hyperinflation and a serious balance of payment crisis. Between 1977 and 1985, the economy experienced serious problems and needed drastic and comprehensive reform.

In 1985, a unity government under Prime Minister Shimon Peres launched the ambitious Economic Stabilization economy. It resulted in the elimination of rampant inflation and substantially reduced budget deficits, while continuing to promote economic growth. Inflation dropped from annual rates of 400 percent to 20 percent. In real terms, it accomplished five things: it drastically reduced the deficit, cut real wages, stabilized price increases, devalued the shekel, and removed almost all government subsidies on food and other basic needs. The program helped the economy to regain its economic equilibrium.

As a result of these reforms, real short-term borrowing rates were reduced from 19.7 percent in 1987

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to 4.9 percent in 1989, while real long-term interest rates were reduced to a level comparable to that of international markets, decreasing from 12-13 percent in 1985 to 4-5 percent in 1990.

Since 1987, the government of Israel has enacted a step-by-step liberalization of foreign exchange controls. They have also over time continued to progress toward the elimination of all subsidies, with the exclusion of water and public transportation. These reforms have not neglected any sector of the economy.

Tax reform has also been implemented. The corporate tax rate has been reduced by 20 percent over a six-year period. The value added tax has been increased, not only to offset other revenue losses, but to make the whole revenue system much more efficient. Also, Israel is helping pay directly for its historic absorption of hundreds of thousands of Soviet Jews through a temporary 5 percent Absorption Levy imposed from 1991 to 1993.

The 1985 Economic Stabilization Program has been far-reaching, comprehensive, and very successful. As a stabilization plan, it has achieved results in five years that many other countries have been working toward for decades. Foreign reserves were stabilized, inflation dramatically reduced, and many of the rigidities of the economy removed. Moreover, its foreign debt has been restructured.

Israel's continued commitment to reform is evident in the government's present steps towards privatization and trade liberalization. The government has enacted these policies despite the vocal opposition of the Manufacturer's Association and trade unions. Prime Minister Shamir has committed himself to cut through bureaucratic objections to the sale of state-controlled enterprises by heading an interdepartmental committee to speed up the privatization effort. The government of Israel is committed to the efficiency of the market system and the long-term benefits of exposing all industry to healthy competition.

Numerous multinational examples of the negative effects of over-ambitious economic "shock" policies have demonstrated that a different approach is necessary to effect solid, stable, and permanent changes. Israel's experience in 1977 has illustrated not only the inconsequential, but detrimental, effects that rash measures can have on its economy. Nevertheless, this has not deterred Israel's dedication to reform. Israel has chosen a step-by-step approach that, over time, has been and continues to be a successful method of change.

Israel has never had a traditional socialist command-and-control economy. The Israeli government has no control over wage rates and does not favor any particular sector of the economy.

It is a myth that the economy of Israel does not operate under a free-market system. The empirical evidence does not support the accusations that government decision-making has displaced the role of the private sector in developing our national economy. It is not based on real data, government policy, or the realities of the Israeli economy. In the 43 years of Israel's existence, the economy has continued to grow, expand its export market, and become a more integral part of the world trade system. Israeli exports of $18 billion (which represent 30 percent of Israel's GNP and one of the highest per capita export rates in the world) demonstrate that the free market system is alive and well in Israel.

There remains much work to be done to reform Israel's economy. Its government bureaucracy remains too bloated and inefficient. Privatization efforts must be accelerated. Remaining subsidies must be reduced. Domestic protectionism and the centralization of certain sectors of the economy should be ended. Inflation remains too high. But progress is being made. In the real world, all good things take time.

Stuart E. Eizenstat
Vice Chairman
Powell, Goldstein, Frazer, and Murphy
Washington, DC

Joel C. Rosenberg replies:

Stuart Eizenstat believes I give a "misimpression" of Israel's economy by using "timeworn arguments" and repeating the "myth" that Israel does not operate under a free market system. Israel has made great progress, he says, and "all good things take time."

Israel surely has made progress since 1985, as I pointed out in my article. But I must confess that I am surprised by Mr. Eizenstat's willingness to soft-pedal the urgent need for Israel to move forward more quickly, more boldly.

Indeed, the tone of his letter is in marked contrast to the speech he gave on Israeli economic reform at the Israel Center for Social and Economic Progress in February 1990. In his speech Mr. Eizenstat said: "For the last 16 years Israel's economy has been in a state of stagnation. The economic program of July 1985 was intended to give the economy time out for stabilization and for structural changes essential for its growth. Unfortunately, it has not been used properly. Excluding a few steps in the fiscal market and the privatization of government-held companies, the anachronistic

The next generation of Palestinians and Jews, viewing each other as common beneficiaries of a larger, growing regional economy, might resort to words rather than Molotov cocktails to settle their differences.

—Paul Roitman Bardack

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

structure of Israel's economy remained unchanged."

Mr. Eizenstat went on to say: "We're here at a truly historic time in Israel's history and indeed in the history of the Jewish people, and it's critical that Israel rapidly reform its economy if it is to successfully integrate and keep the truly historic aliyah of the tens of thousands of Soviet Jewish emigres."

This is exactly the message that Washington in general, and the American Jewish community in particular, must communicate to Israeli leaders—a message of hope and opportunity and, above all, urgency. Immediate economic reform that results in explosive economic growth is essential to creating good jobs and affordable housing, weaning Israel from foreign aid and financing national security necessities such as the Arrow anti-ballistic missile system. It is also, as Paul Bardack cogently points out, the best confidence-building measure Israel can take to build new bridges of cooperation with the Palestinians of the West Bank and Gaza Strip.

Israeli Finance Minister Yitzhak Moda'i may have set the wheels in motion to change that in a November interview with the *Washington Post.* Moda'i proposed cutting off American economic aid to Israel by the end of the decade if Israel's request for $10 billion in American loan guarantees was approved. Asked if he would then object to Congress conditioning the loan guarantees on implementation of economic reforms, Moda'i responded: "I'd love it. It would be an insult to me, but I'd love it." Mr. Moda'i has changed the nature of the debate. He has given an invitation to American policymakers and the American Jewish community to help Israel restructure its economy. It is now time for Israel's supporters to do exactly that.

Hunger Is a Genuine Problem

Dear Sir:

Robert Rector's article on childhood hunger in the United States ("Food Fight: How Hungry Are America's Children?" Fall 1991) is completely out of touch with reality. His conclusions are thoroughly contradicted by the great weight of government data and private studies on hunger and malnutrition—including those he cites. By selectively presenting this data, he attempts to provide an intellectual veneer to justify ideologically driven propositions that are preposterous on their face. Specifically, he concludes that the poor do not suffer from food shortages and that, in fact, poor children may be better nourished than higher-income children.

Mr. Rector's view of the nation is at odds with common sense. Hunger in this country is not caused by food scarcity, but by poverty, defined in large part by the ability of a household to afford an adequate

diet. In 1990, before the worst of the recession, 33.6 million Americans—including 13.4 million children—were poor. Nearly 40 percent of those in poverty—almost five million children—lived below half the poverty line (about $5,210 for a family of three). Even with government assistance, most of these families' resources fall far short of the poverty line. It is inconceivable that many poor children do not face food shortages and hunger.

FRAC's careful study of 2,335 low-income families—the Community Childhood Hunger Identification Program (CCHIP)—shows that many poor and near-poor children are, in fact, going hungry. Designed by eminent physicians and nutrition researchers, it is an exhaustive survey that asks low-income parents over 100 specific questions about their families' circumstances. Families were considered hungry if they answered "yes" over and over again to key questions designed to measure household food shortages due to insufficient resources, such as: "Did any of your children go to bed hungry because there was not enough money to buy food?" And, "Did you ever cut the size of your child's meals or did they ever skip meals because there was not enough money to buy food?" These questions were asked relative to the previous month and the previous year.

CCHIP found substantial numbers of hungry children in each of seven cities surveyed for our report. When projected to the nation as a whole, CCHIP suggests that each month in this country, there are about five million children under the age of 12 who experience hunger. CCHIP found that hungry families have food shortage problems an average of seven days per month and six months per year.

Other findings from CCHIP paint an overwhelming, consistent, and all too credible picture of hunger in America. Hungry families, it found, had average incomes about 25 percent below the poverty line. On average, they spent over half of their gross incomes on shelter. As a result, they could spend an average of only about 78 percent of what the USDA says is needed to achieve a minimally adequate diet. This includes the value of government aid such as WIC and food stamps. Most disturbingly, CCHIP found that hungry children experience far more health problems than non-hungry low-income children and miss school more often.

Mr. Rector himself calls CCHIP's definition of hunger "reasonable." CCHIP used the same techniques as major government surveys cited by Mr. Rector and achieved a response rate far surpassing most. The National Center for Health Statistics (NCHS), whose findings Mr. Rector cites most heavily, has called CCHIP "well developed and executed." By studying hunger, not malnutrition, it fills a critical gap in our nation's data collection system. Indeed, NCHS found the CCHIP questions so reliable it is including variants of them into its latest major national health and nutrition survey (NHANES III). The House Select Committee on Hunger has recommended that CCHIP serve as a model for a national hunger study.

To combat CCHIP's findings, Mr. Rector does little more than selec-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tively—and misleadingly—excerpt data from various government surveys, none of which sought to measure whether families had enough food to eat. Further, he conveniently ignores data showing that low-income children are more likely than other children to suffer from stunting (low height for age), anemia, and other nutritional problems. A 1988 surgeon general's report found that iron-deficiency anemia "has historically been most common among the poor and still is today." The USDA's 1986 Nationwide Food Consumption Survey found that low-income children are less likely than wealthier children to receive the recommended dietary allowances of food energy (calories), vitamin B6, vitamin E, niacin, thiamin, calcium, and other nutrients.

In deriding FRAC's recommendations to improve and expand existing federal food assistance programs, Mr. Rector is thoroughly at odds with the mainstream. His arguments also appear to be at odds with each other. He criticizes these programs, yet recommends program improvements to address existing nutritional problems.

Those taking the time to work with low-income people verify CCHIP's findings and strongly support FRAC's policy goals. Catholic Charities USA, the nation's largest network of social service agencies, documented a huge groundswell in demand for emergency food and housing assistance in the last decade. As a result they are now leading the call for expansion of the food stamp program.

Senator Bob Dole, a member of the advisory committee to FRAC's Campaign to End Childhood Hunger, wrote recently that "there are conservatives as well as liberals who look to FRAC for advice and assistance on nutrition issues....I have never disagreed with [FRAC's] goal, which is to insure that all Americans have access to an adequate diet."

Instead of glibly disparaging FRAC's work, Mr. Rector and The Heritage Foundation should take a hard look at the state of the union and see why so many eminent Americans have raised the call for a stronger public role in ending childhood hunger.

Robert J. Fersh
Executive Director
Food Research and Action Center
Washington, DC

America's Children Are Not Wasted

Dear Sir:

The last 16 lines of Mr. Rector's article say it all and say it well: The myriad problems that poor children in America face today have nothing to do with hunger. On the first page, however, he almost gives away the store by accepting one of the more capricious definitions of "hunger." In this country there are very few people with their wits about them who suffer hunger for lack of resources: voluntary organizations effectively provide food assistance.

More chronic is the hunger of the already obese. "Empty calories" do not cause obesity by themselves, only when consumed on top of an adequate supply of all essential nutrients.

It has become customary, even among those who know better, to refer to U.S. children who are in the lowest 5 percent of weight-for-height references as "wasted." This term can be applied to those with anorexia nervosa, with very serious illnesses (*e.g.*, malignant tumors, AIDS), and to some victims of child abuse; it should not be applied to the great majority of these in that bracket who merely represent the lower part of a normal distribution.

The once-fashionable practice of feeding homogenized whole cow's milk to infants under six months of age caused intestinal blood loss and accounted for much of the anemia in early childhood. Its displacement by breast feeding and infant formulas (purchased directly or provided by WIC) has done most of the job of decreasing anemia.

It is a sad reflection on the state of our health system that important services to the children of the poor are increasingly determined by activists and provided by bureaucrats, not by pediatricians or family physicians.

George G. Graham, M.D.
Professor of Human Nutrition and Pediatrics
The Johns Hopkins University
Baltimore, MD

Robert Rector replies:

Mr. Fersh again fails to provide evidence to back his claim that large numbers of poor children are hungry and malnourished. The FRAC survey did collect potentially interesting data on food expenditures by poor families. Unfortunately these data were distorted for political purposes when FRAC deliberately omitted the dollar value of free foods provided through the school lunch and school breakfast programs, as well as the free food received through charities. If these costs had been added to FRAC's food expenditure calculations it is unlikely that FRAC would have been able to claim that poor persons have too little money to spend on food. Hence the deliberate omission of these key data.

Mr. Fersh's claims concerning U.S. government nutrition surveys are also inaccurate. The 1986 USDA Food Consumption Survey he cited was virtually identical to the 1985 survey data presented in Table 1 of my article. It shows that poor children in America have very high average intakes of protein, vitamins, and minerals; intakes that are virtually identical to those of middle-class children. Neither the USDA survey, nor the hematological studies of the Center for Disease Control show significant undernutrition among poor children.

Each month in this country, there are about five million children under the age of 12 who experience hunger.
—Robert J. Fersh

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The term "stunting" used by Mr. Fersh merely refers to being among the shortest 5 percent of all children of a given age. By definition, 5 percent of all children must be "stunted." Since poor children are on average slightly shorter than non-poor children, it follows that a higher number of poor children will appear among the shortest 5 percent of all children.

A variety of factors that contribute to the relative shortness of poor children are discussed in my article. Mr. Fersh's belief that shortness is caused simply by widespread undernutrition is unfounded. The simple fact is that the average poor child in the United States today upon reaching maturity will be significantly taller and heavier than the average child at the same age in the entire U.S. population in the late 1950s. A boy raised in poverty today will grow up to be, on average, a full inch taller and 10 pounds heavier than the GIs who stormed the beaches of Normandy in World War II. Not bad for a generation of poor kids that Mr. Fersh believes is hungry and malnourished.

In this country there are very few people with their wits about them who suffer hunger for lack of resources: voluntary organizations effectively provide food assistance

—George G. Graham, M.D.

Stop Beating Up On Japan

Dear Sir:

"How can the Pentagon maintain the forward deployment of troops in Japan in the 1990s?" rather than, "how can we maintain peace in the Pacific?" seems to be the question that concerns Seth Cropsey in his piece "Uncle Samurai: America's Military Alliance with Japan"(Fall 1991). His answer is to keep the Soviet threat estimate at the maximum and to harp on the danger of a Japan rearmed.

"Intentions can change over a night or two. Capabilities take years to develop," he argues. And he expects Soviet capabilities to "grow significantly throughout the 1990s." He ignores the fact that the Soviet Union has disintegrated and its constituent republics are shedding Communism fast. He ignores them because they fall into the category of intentions. But one is entitled to doubt whether the Soviet Union can restore itself "over a night or two." Mr. Cropsey is also misinformed about Boris Yeltsin: he is very much in favor of concluding a peace treaty with Japan. The Northern Territory is the only leverage he has for getting large-scale outside assistance.

I am mindful that Russia is nuclear armed, and that it was Czarist Russia and its expansionism with which Japan had to contend in 1904-05. But for the foreseeable future there is no more credibility for a Russian blackmail scenario than for a Chinese one.

That brings us to Japan and its alleged threat to the stability of the region. It is not certain that Mr. Cropsey understands that Japan's need is for strategic deterrence: it is destabilizing for a big plum like Japan to be in a nuclear vacuum. If the United States cannot provide such deterrence, Japan will surely have to acquire it on her own. But that is not the same thing as sending expeditionary forces to Shanghai, laying siege to Singapore, and other "unprintable" things that seem to worry Mr. Cropsey. Recounting Japan's past vices in a language usually reserved for one's enemy, he nevertheless argues the case for a continued alliance with Japan.

And that is the problem of his article. For Mr. Cropsey, the purpose of continued U.S. presence in Asia is the purely negative one of policing and averting Japan's imaginary imperialism and not much else. Increasingly *Asians are also* perceiving America as an irascible and roguish policeman. The Philippines has voted the U.S. bases down. There is an undercurrent of anti-Americanism in South Korea. All Asian governments have borne the brunt of unilateral exchange-rate manipulation and trade protectionism by Washington. They are watching with apprehension the progress of the U.S.–Canada–Mexico free trade zone, and the Malaysian government has been pressuring Tokyo to build the yen bloc. Seoul has been miffed by the unilateral withdrawal of U.S. tactical nuclear weapons.

The days when benefits flowed one way from America to Asia are long gone. Even the Pentagon's war in the Gulf was paid for by Japanese subscription. However, that experience and others like it seem to encourage the belief, in this country, that America can continue to be the policeman and charge the expenses to Japan. But that is an illusion. It is no more real than the opposite view that America has hired itself out to Japan as a mercenary. In reality, Japan and the rest of Asia want mutuality and equality. That includes mutual and free trade.

They are paying America—not only in cash but in deference—so it can be the leader in jointly maintaining an order, whose functions are much more diffuse than policing, and which include free trade. This is a joint effort and America must pay a fair share of the cost. If America really becomes a hired gun, or if it retreats behind the "free trade zone," that will spell the end of the order. From the Asian perspective, America's economic woes and shifting moods pose a more serious and imminent threat to the international order.

Japan would like to maintain its close ties to America. If the United States can maintain its self-confidence, restraint, and enlightened leadership, it can keep Japan's friendship well into the next century. The Pacific may well become

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the only area where American influence will be preserved. But if that is what Mr. Cropsey wants, he has to wake up to the new reality and change his rhetoric.

Tetsuya Kataoka
Senior Research Fellow
Hoover Institution
Stanford, CA

Seth Cropsey replies:

I agree with Mr. Kataoka that for Washington to cultivate a good relationship with Tokyo it is necessary that the United States should "maintain its self-confidence, restraint, and enlightened leadership." But it is equally necessary for Japan to demonstrate such qualities as moderation and tolerance that will address the substantive concerns of the U.S. in its dealings with Japan.

Mr. Kataoka's remarks about history are startling. Were Japan to acquire nuclear weapons, he says, it would not be "the same thing as sending expeditionary forces to Shanghai, laying siege to Singapore, and other unprintable things that seem to worry Mr. Cropsey." Perhaps not. Nor would it necessarily signal the reopening of the death camps if Helmut Kohl appeared before the Bundestag in a brown shirt and delivered the Nazi salute. But it would make a lot of people very nervous—and with good reason. I am not alone in the concern about Japanese rearmament today, and am just as certain that China and Korea, to say nothing of the rest of Asia, would be deeply alarmed were Japan—whose repentance over having started World War II in Asia is still in doubt—to possess nuclear weapons. For that reason, and notwithstanding Mr. Kataoka's disagreement, the forward deployment of the U.S. military in the western Pacific remains the best single hope for the region's continued peace.

Morality Inherent to American Foreign Policy

Dear Sir:

"American Way: The Enduring Interests of U.S. Foreign Policy" is a strange title for Mark P. Lagon and Michael Lind's article (Summer 1991). In defining America's "enduring interests" in foreign policy, Messrs. Lagon and Lind manage to do it in so narrow a fashion as to purge our interests of anything characteristically American. In fact, the interests they list would have been acceptable (as a starting point) for the Germany of Hitler, the Soviet Union of Stalin, and the Iraq of Hussein. This does not render the Lagon–Lind list invalid, merely inadequate. At the same time, oddly enough, Messrs. Lagon and Lind manage to define our interests in a manner certain to anger neighbors and allies to no purpose whatsoever.

The "four primary interests" the authors posit are:

First, preserving the nation from secessionist forces and cultural disintegration. This point is well argued, but it is clearly a domestic, not a foreign policy issue.

Second, securing control of the national frontier. The authors confuse this with the original task of *determining* the national frontiers, which in a pioneer environment required different imperatives than those of border control today. It is almost impossible to imagine future problems in Canada or Mexico that would justify our permanently seizing as much as a foot of their territory, and we will pointlessly anger our neighbors by not distinguishing between present conditions and those of the early 19th century.

Third, protecting the security of North America. Here again our neighbors north and south are asked to suffer the statement that "no balance of power in the North American quartersphere will be tolerated. The United States must be the unquestioned hegemon, so that outside powers cannot play one North American state against another." Are we to tell Canada and Mexico who their friends and allies may be? How would we enforce our command? This requirement is both unnecessary and counter-productive to the sort of relations we want and can easily enjoy with Canada, Mexico, and the rest.

Our fourth interest is "securing access to markets and resources around the globe." One can imagine Marxist professors rubbing their hands at this unfortunate way of stating the matter. The fact is that we believe in *free trade.* We do not seek cozy arrangements that will serve our nation and shut out others. So why state it in so obnoxious and misleading a fashion?

Increasingly Asians are perceiving America as an irascible and roguish policeman.

—Tetsuya Kataoka

This brings me to my overall objection to the Lagon–Lind article. The common interests of other nations are entirely left out of consideration. Every impression is given that we do not care about other people of the world, and they had better not get in the way of Uncle Sam. If another Hitler, Stalin, or Pol Pot comes along, we will not bestir ourselves to influence the tyrant's fall, unless, of course, it can be shown that we will thereby enlarge our territory, our security, or our economic enrichment.

That is not the "American Way" in foreign policy, and thank God it isn't. Moral considerations operate in the framing of our policies because the American people insist on it. Policy framers must see that this idealism takes forms that are balanced, reasonable, and within our capacities.

As Joshua Muravchik argues in *Exporting Democracy,* America's national interest lies in the judicious application of American influence and power to the end of liberating people everywhere from the superstitions of tyranny, Marxism, fascism, and their progeny. This is true even when (as with Japan) we are roused from our slumbers by virtues we once thought preeminently "Yankee" and American.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

As the debate between the national-interest "realists" and the "democratic internationalists" evolves, wise heads will come to see that the idealism of the latter contains more realism than the flinty calculus of the former.

André Ryerson
Amherst, MA

Eternal Interests

Dear Sir:

Taking their cue from Palmerston's maxim that "our interests are eternal," Messrs. Lagon and Lind give a thoughtful analysis of the "four primary interests" that have guided American foreign policy throughout its history. Their view is superior to the particularism that denies any interests beyond direct security threats, or the universalism that equates America's interests with "world order." Other interests might be added to their list, but it is hard to see how any they mention could be omitted.

They ably show how current issues relate to older ones—*e.g.*, SDI to space defense of missile approaches, or Desert Storm to global access. They rightly dismiss ideologues who see our policy as "capitalist imperialism"; America has repeatedly subordinated narrow economic advantage to larger interests. Their discussion of the importance of shared language and culture to national integrity is excellent. Demands for ethnic separatism often threaten the consensus on rules that allows freedom to become a reality.

Deep Roots of Freedom

While they correctly reject the notion that America has ever been historically isolated from the world, one should recognize that Americans' interest in freedom of action is deeply rooted, as exemplified in Washington's farewell address and in Wilson's insistence we were an "associated" (not allied) power. In the Monroe Doctrine we sought to extend our own freedom from Old World conflicts to the hemisphere as a whole. As Elliott Abrams notes, this is in our interest still.

Are the interests they delineate permanent? Should they guide policy today? This depends on our view of "interests." Seen restrictively, they *are* constant and *do* provide guidance. Viewed broadly, they give but a vague guidance. A restrictive understanding of interests is insufficient to give us an understanding of policy.

Policy entails an assessment of specific courses (and costs) of action to support interests, and the effectiveness of those actions to that end. This necessitates an estimate of the convergence/divergence between America's interests and those of other states, and the proportion of

domestic resources it is feasible to allocate to foreign policy.

Palmerston's maxim obscures as much as it clarifies; while his permanent interests may have "guided" British policy at the end of his century, the heart of the policy debate had moved well beyond him. Chamberlain had a complacent knowledge of traditional British interests, but it was the maverick Churchill who grasped the revolutionary nature of his times and forged policies that preserved our heritage.

Continuity of interests is often coupled with enormous discontinuities in policies and outcomes. To focus on the one to the neglect of the other risks resting on one's laurels in a severely competitive and ever-changing game.

Current leaders may agree that policy should be "guided" by the authors' four primary interests. To shape effective policy, however, they must then relate this general understanding to two compelling realities: that divergences over the allocation of resources to support foreign-policy interests grow in intensity daily; and that the external setting in which America must pursue its "perpetual interests" is now undergoing indeterminate changes as radical as any in international history.

Whittle Johnston
Professor of Government
and Foreign Affairs
University of Virginia
Charlottesville, VA

Multiculturalism Counter to National Integrity

Dear Sir:

Mark P. Lagon and Michael Lind have placed the maintenance of national integrity as one of the enduring interests of our nation. This importance is well placed and calls for far closer attention than it has so far received. Any modern nation is so complex, even when organized around a single ethnolinguistic population (which is rarely the case), that it takes a feat of collective imagination on the part of its inhabitants to view it as a single, cohesive whole. Without some kind of image of unity the coordinated action necessary for the functioning of modern states would thus be impossible. Our own history and the experience of countries around the world confirm this obvious fact.

These "imagined communities" (as the historian Benedict Anderson has described modern nation-states) are maintained by an image of unity that is in part transmitted through the system of mass public education. Recognizing this fact, a small but highly energetic group of utopian academics and their supporters, both inside and outside the academy, have carried on a determined campaign over the past few years to alter the way our educational institutions present the American national image. This campaign goes under the rubric of "multiculturalism," whose goal is to alter the "Eurocentric" nature of the present system of instruction throughout the country in favor of one that, they say, reflects the true diversity of the United States.

The image many of these revisionists wish to project is not of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a nation unified by common values, but rather one consisting of a "mosaic" of different groups living together like a colorful, ethnically diverse neighborhood in a large city where the experience of one is no more valuable than that of any other. What this image is really intended to do, however, is to legitimize officially designated interest groups as major players in the political and economic life of the country. Intimately connected with these educational revisions are new civil rights policies that shift emphasis away from individual rights to state-sponsored group privileges.

This movement constitutes a veritable cultural revolution whose results will only be to strengthen certain narrow interest groups in the country at the expense of the nation as a whole. In fact this revolution amounts to nothing more than state-subsidized divisiveness, which would increasingly politicize all walks of life at the expense of our economic competitiveness abroad, and which would raise intergroup hostility and racial tensions at home to ever higher levels.

Discussion of these issues, however, has been sporadic and disconnected, thus masking their true significance. Messrs. Lagon and Lind have therefore done a service by recognizing the importance of national integrity in the context of the enduring interests of the United States, and by pointing out the potentially corrosive effects that the current cultural revolution would have if in fact it manages to succeed.

Glynn Custred
Professor of Anthropology
California State University,
Hayward
Hayward, CA

Lumps in the Melting Pot

Dear Sir:

It is axiomatic that a state cannot survive intact unless its domestic and foreign policies are reliably committed to the primary task—that namely of preserving and defending the political and moral integrity of the state. The United States did live up to this requirement in the 19th century, but its resolve to meet the challenge has weakened steadily in the 20th century. True, the nation's territorial borders have not been breached by hostile military forces from without. What is broken up and fragmented today is the nation itself—the vital inner core of the state on behalf of which the outer borders were established and defended.

In this respect I find no support in the records of domestic policy-making for Mark P. Lagon and Michael Lind's conclusion that "protection from cultural disintegration" either was or is "a permanent American interest." In fact, "culture"—a term encompassing race, religion, language, social mores, norms of statecraft, and orientation to the world—is a non-concept in U.S. internal and external policy formation if only because it is incompatible with the reigning American doctrine of egalitarianism that has had the effect of simply cancelling each of the elements that together constitute culture.

The "new" North American nation happened to be culturally unified because it was founded and developed by some of the most determined heirs of Europe's classical/Christian civilization. And that civilization differs from other literate cultures on several crucial counts: It speaks to the individual, not the group; it stands for the principle of progress because it identifies the individual mind as the source of inventiveness; it has relied for 2,500 years on two comprehensive secular legal systems—Rome's civil law and England's common law—for assuring security and order on multiple levels of human relations; and it has originated the idea of the state as a partnership in law that binds successive generations to uphold the integrity of one particular state rather than as a wide open country that welcomes all who seek refuge or opportunity on the assumption that they will be assimilated in the melting pot.

The authors are right in noting that cultural separatism is the major threat to national integrity today. But they are as culture-blind as recent U.S. governments have been in not distinguishing European from Asian, American Indian, and Hispanic values and traditions. They are thus wrong in likening the modern United States to Switzerland, whose democratic "mosaic" is wholly European and whose moral and political integrity continues to be rock solid. That of the United States, by contrast, has been placed in jeopardy by new immigration and education policies, quota systems, and assorted "affirmative-action" programs that openly favor non-Western peoples regardless of whether they are culturally able to adapt to life in a Western democracy.

Such "minority set-asides" have the effect of sanctioning the determined drive into apartheid in which American Indians, blacks, and Hispanics are engaged. They also foster scorn for Western civilization and invalidate the "melting-pot state" that shelters minorities.

Adda B. Bozeman
Professor Emeritus of
International Relations
Sarah Lawrence College
Bronxville, NY

A boy raised in poverty today will grow up to be, on average, a full inch taller and 10 pounds heavier than the GIs who stormed the beaches of Normandy in World War II.

—Robert Rector

Globe Trotting

Dear Sir:

Mark P. Lagon and Michael Lind's "American Way" is interesting

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

for, among other reasons, its subtext. The study analyzes American foreign policy through the view of historical change that the German legal theorist Carl Schmitt applied to European nation-states. Essential to the Schmittian model adapted by our two authors is a picture of the transformation of territorially and ethnically fixed polities, such as England, France, and Spain. These become replaced by larger sovereign units, dividing among themselves control of both global resources and markets. Spheres of influence among global powers, Schmitt speculated, could conceivably supersede the European state system, which had arisen in the early modern era. He viewed American hegemony in the Western Hemisphere since the Monroe Doctrine as an illustration of his concept of global spheres of influence.

Linguistic Supremacy

Although "American Way" is a creative, learned attempt to apply Schmitt's speculative thinking to the United States, the authors must exert themselves to explain American foreign policy geopolitically. Our leaders, alas, did not always exemplify the dispassionate statesmanship being praised. Too often in this century they themselves were driven by the ideological impulses they tried to arouse in others. Did the persecution of German-Americans and others during World War I, as the authors insist, only replicate the "American cultural separatism" reflected in Benjamin Franklin's "concern" over Pennsylvania's German speakers? But Franklin's concern was indeed about English linguistic supremacy. He was not waging a crusade for democracy that involved burning down German libraries and terrorizing those who dared to converse in German.

Nor was the balance of power the overriding issue that drove Wilson and his Secretary of State Robert Lansing into war against the Central Powers. The American government sabotaged its own peace initiatives, to which the Germans and Austrians had responded quite positively when approached in the winter of 1916–1917. Lansing in particular feared that German support for an American peace plan would delay America's entry into the war. Already embroiled with the German "militarists," the Wilson administration then hastened, without provocation of any kind, to declare war on that "prisonhouse of

nationalities," the Hapsburg Empire. Again, it is hard to see how the balance of power was the controlling factor in Wilson's policy for Europe.

Culture Vultures

I would also like to know how the authors intend to absorb into "English-language American culture" (whatever that means by now) the tidal wave of Hispanics whom they envisage bringing into the United States. Will these people be trained in geopolitics—or will they become American through the integrating human rights doctrines of the government bureaucracy and journalistic establishment? Universal nations may sacrifice their cultural and social continuity, but do not exist in some ideological void. It seems less likely this void will be filled by mass belief in limited government at home and sober restraint internationally than by perpetual furor over human rights. The only alternative, given their views on immigration, may be to have the authors handpick their own immigrants. Otherwise the American way may descend into endless claims advanced by minorities seeking to be "empowered" at everyone else's expense.

Paul Gottfried
Professor of Politics
Elizabethtown College
Elizabethtown, PA

Mark P. Lagon and Michael Lind reply:

If Adda Bozeman and Paul Gottfried had read our essay more carefully, they would have seen that we favor immigration *on the condition* that immigrants assimilate rather than disrupt the cultural integrity of the United States. Mrs. Bozeman and Mr. Gottfried are also mistaken in thinking that we sought to apologize for previous U.S. policymakers. On the contrary, particular presidents, including Woodrow Wilson and FDR, can be criticized for having failed to understand and pursue the United States' permanent interests. As for Mr. Gottfried's enigmatic suggestion that we are applying Carl Schmitt's theories to U.S. foreign policy, one hardly need go to an obscure German thinker to understand the Monroe Doctrine or other aspects of U.S. geopolitical interests.

André Ryerson's letter, in its confusion of strategy with public opinion abroad and at home, inadvertently demonstrates why the "democratic internationalists" with whom he associates himself are not making much headway in intellectual debates. His unflattering assertion that our reasoning could have been a rationalization for Hitler's, Stalin's, and Saddam Hussein's hegemonic designs applies a weak form of logic—argument by analogy. Although a case can be made that democratic states serve U.S. interests—and has been by some articulate democratic internationalists—he just asserts his beliefs. Unsophisticated advocacy for democracy and human rights, ignoring geopolitics, is merely unpersuasive "globalism." ☎

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

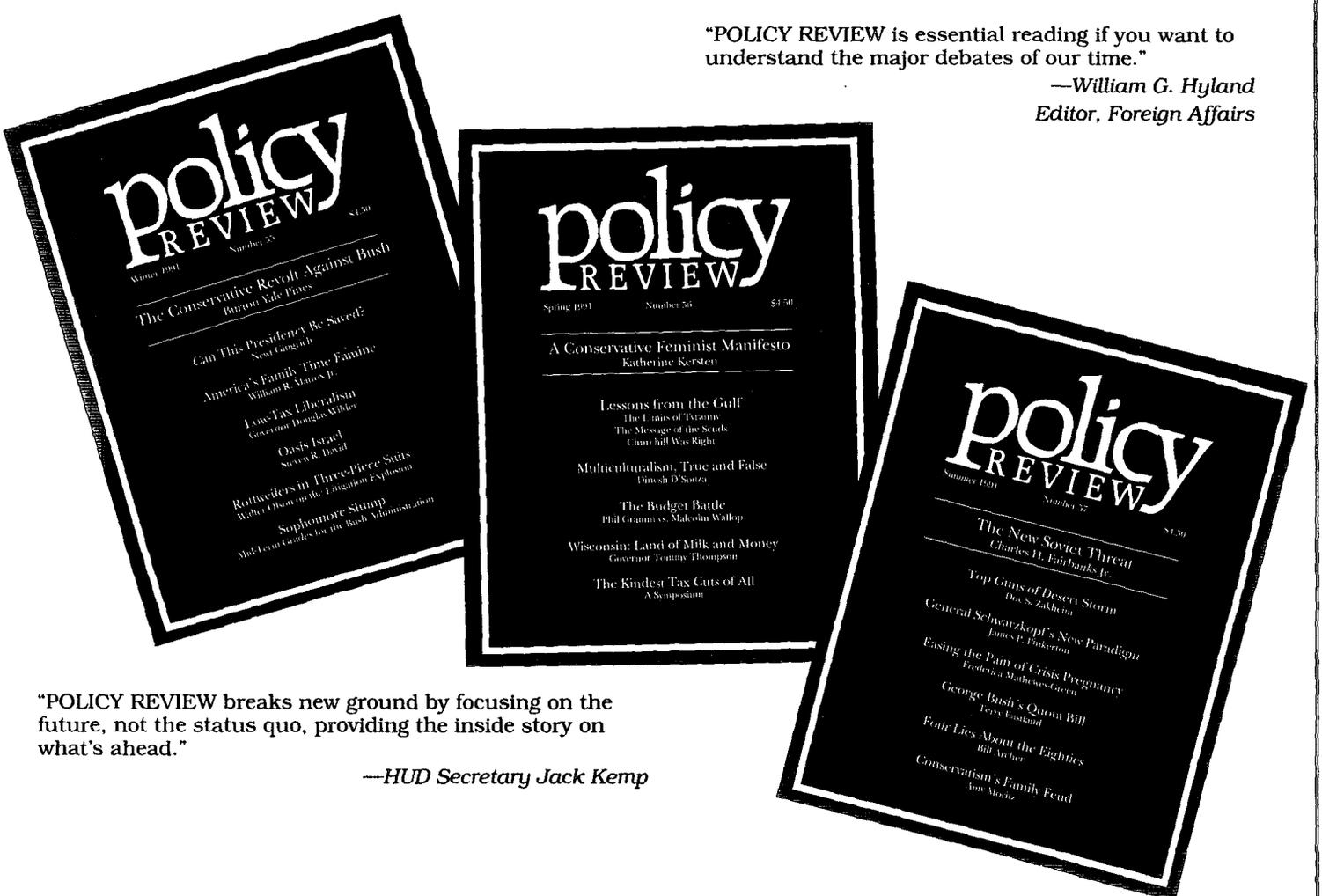
Conservative Thought At Its Best

"POLICY REVIEW is the most thoughtful, the most provocative, and the most influential publication on the intellectual right."

—Martin Peretz
Editor-in-Chief, The New Republic

"POLICY REVIEW is essential reading if you want to understand the major debates of our time."

—William G. Hyland
Editor, Foreign Affairs



"POLICY REVIEW breaks new ground by focusing on the future, not the status quo, providing the inside story on what's ahead."

—HUD Secretary Jack Kemp

Now available at special introductory prices—up to 22% off !

SSA92A

Name _____
(please print)
Address _____
City/State/Zip _____

☐ One year, 4 issues for $16 (11% off) ☐ Two years, 8 issues for $30 (16% off) ☐ Three years, 12 issues for $42 (22% off)

Begin my subscription: ☐ Current issue ☐ Next issue Payment Terms: ☐ Payment Enclosed ☐ Bill Me

Bill my: ☐ Visa ☐ Master Card ☐ American Express

Card Number _____ Exp. Date _____

Signature _____

Please make checks payable to: POLICY REVIEW, 214 Massachusetts Avenue, NE, Washington, DC, 20002. Add $8.00 postage per year for foreign air-speeded delivery.

POLICY REVIEW—the thought leader of American conservatism.

policy REVIEW

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

policy REVIEW

Until Whittaker Chambers, Communism was seen mostly as social organization, forced labor camps, purges, secret police, and the most brutal and bloodthirsty dictatorship in history. But this did not explain its success in winning converts, in fomenting war and revolution, nor did it explain the drives and nature of what the liberals like to call "socialism in a hurry." Chambers showed Communism for what it was, a faith and a vision that was conquering man and dominating man's hope and fate. Against it was posited the flagging and compromised faith enunciated by liberalism—a faith that found its focus in hedonism, negation, and electric can-openers. When Nikita Khrushchev said, "We will bury you," the West laughed, but not very heartily. The last laugh came when President Ronald Reagan returned the compliment.

Ralph de Toledano on Whittaker Chambers in *The Cold War's Magnificent Seven*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED